



REDEVELOPMENT AGENCY
STAFF REPORT

MEETING DATE: January 22, 2003

DECEMBER 2002 FINANCE & INVESTMENT REPORT

RECOMMENDED ACTION:

Accept and File Report

EXECUTIVE SUMMARY: Attached is the monthly Finance and Investment Report of the Redevelopment Agency of the City of Morgan Hill for the month of December 2002. The report covers activity for the first six months of the 2002/2003 fiscal year. A summary of the report is included on the first page for the Board's benefit.

The Redevelopment Agency monthly Finance and Investment Report is presented to the Agency Board and our Citizens as part of our ongoing commitment to improve and maintain public trust through communication of our finances, budget and investments. The report also serves to provide the information necessary to determine the adequacy/stability of financial projections and develop equitable resource/revenue allocation procedures.

This report covers all fiscal activity of the Redevelopment Agency.

FISCAL IMPACT: As presented.

Agenda Item # 1

Prepared By:

Finance Director

Submitted By:

Executive director

**REDEVELOPMENT AGENCY OF
THE CITY OF MORGAN HILL**

Monthly Financial and Investment Reports

December 31, 2002 – 50% Year Complete



**CITY OF MORGAN HILL
REDEVELOPMENT AGENCY**

Prepared by:

FINANCE DEPARTMENT



REDEVELOPMENT AGENCY OF THE CITY OF MORGAN HILL, CALIFORNIA
FINANCIAL STATEMENT ANALYSIS - FISCAL YEAR 2002/03
FOR THE MONTH OF DECEMBER 2002 - 50% OF YEAR COMPLETE

This analysis of the Redevelopment Agency's Financial status reflects 50% of the fiscal year.

Revenues

Through December, the Redevelopment Agency received \$6,661,950 in property tax increment revenues; this is expected. Most property taxes are received in December and April. The Redevelopment Agency, as of December 31, 2002, has collected \$100,000,000 in tax increment revenue under the original plan and \$46,033,663, net of pass-through obligations to other agencies, toward the plan amendment cap of \$147,000,000. Since the \$100 million tax increment cap for the original plan was reached during 1999/2000, all tax increment revenues collected during 2002/2003 are being collected under the plan amendment.

Interest and rental income of \$184,259 reflects interest income received only through September because interest earnings for the months of October, November, and December will be posted after the end of the second quarter in January. 'Other Revenues' represent reimbursements and charges for current services and total \$5,089.

Expenditures

Total Redevelopment Agency Capital Projects expenditures and encumbrances equal \$14,767,523 and are 46% of budget. Of this total, \$2,405,067 represents encumbrances for capital projects and other commitments. Expenditures for administrative costs for employee services, supplies, and contract services were 45% of budget. During July, the Agency made a \$2.55 million installment payment towards the purchase of the Sports complex. During September, the Agency spent \$452,977 on property acquisitions related to the Indoor Recreation Center and Butterfield Blvd. Phase IV projects. During October, the Agency placed \$100,000 into escrow for the purchase of the Courthouse Facility property. During November, the Agency placed approximately \$318,000 into escrow for purchase of property for the Butterfield Blvd. Phase IV street project. All Capital Projects expenditures during 2002/03 have used monies collected under the plan amendment.

Budgeted expenditures plus encumbrances for Housing are at 22% of the budget for a total of \$1,520,928. Although certain loans and grants for various housing loan and grant programs have been committed, the related funds have not yet been drawn down by the recipients and, hence, are not reflected in the expenditures. All of the 2002/03 housing related expenditures have been funded with tax increment collected under the plan amendment.

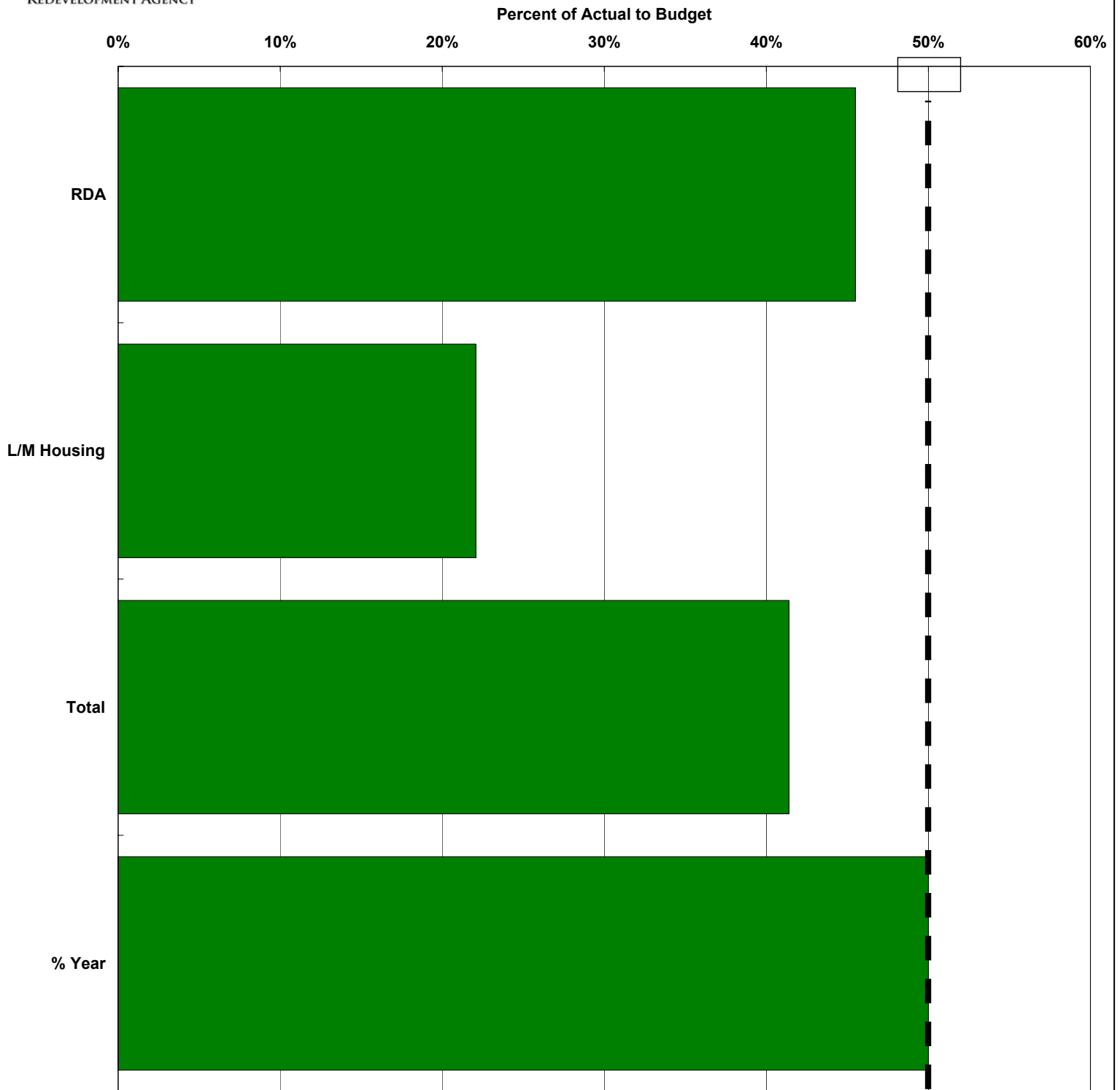
Fund Balance

The unreserved fund balance of \$11,643,530 for the Capital Projects Fund at December 31, 2002, consisted entirely of monies collected under the plan amendment. The unreserved fund balance of \$11,643,530 at December 31 included future obligations to pay an additional \$6.9 million for the Courthouse Facility, an additional \$3,250,000 for purchase of the Gundersen property, an additional \$2.55 million for a sports complex, and \$1.61 million for the Lomanto property should the Agency agree to execute its option to purchase in accordance with the agreement. If all of these future commitments are subtracted from the \$11,643,530, the remaining negative unreserved fund balance at December 31 would be a negative (\$2,666,470). However, these commitments are expected to be paid out over the next 2 to 4 years and to reduce current resources by only an estimated \$3 million in 2002/03.

The unreserved fund balance of \$3,868,718 for the Housing Fund at December 31 consisted of funds all collected under the plan amendment.



Redevelopment Agency YTD Expenditures

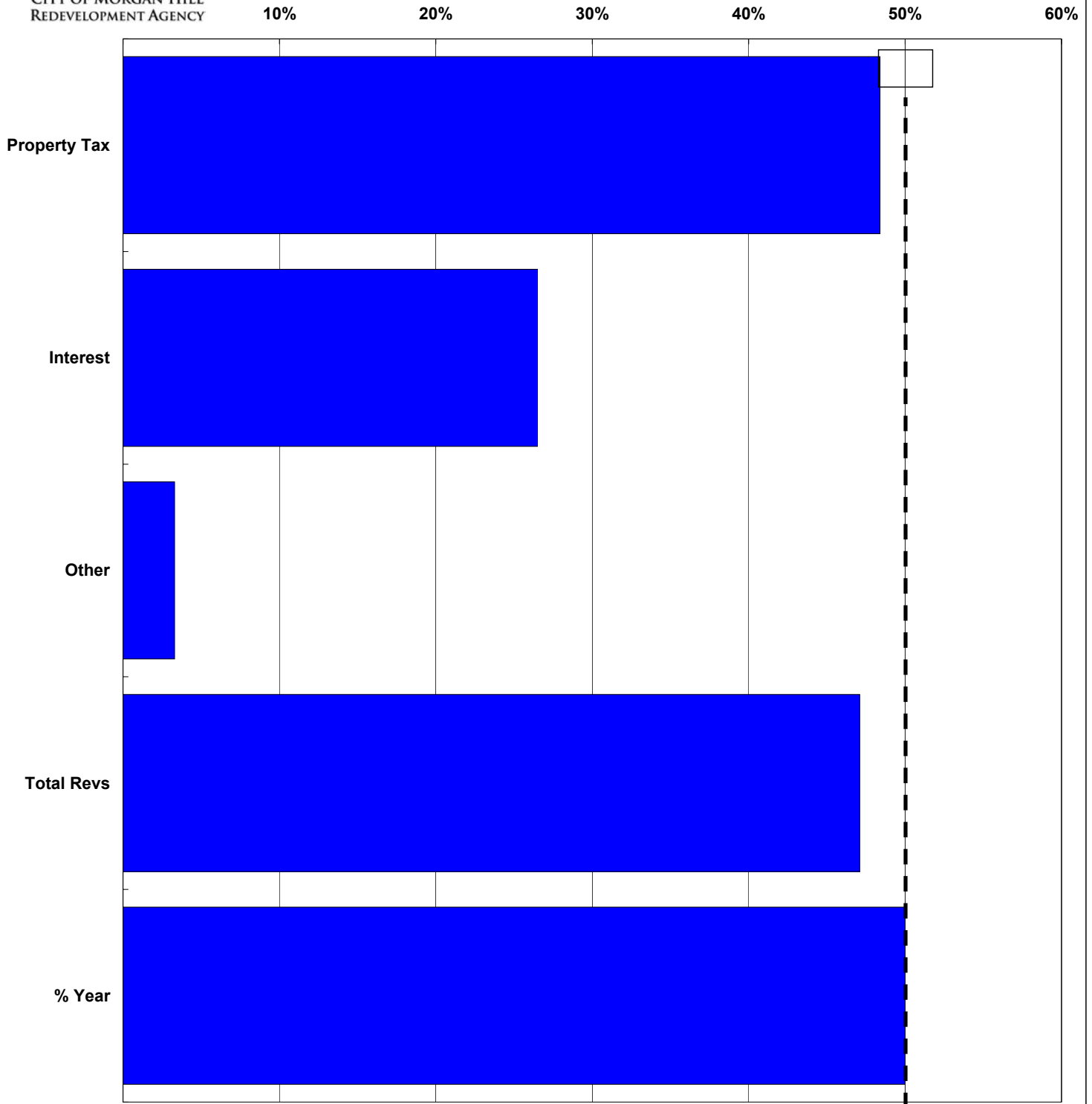


Expenditure Category	Budget	Actual Plus Encumbrances	% of Budget
CAPITAL PROJECTS	\$32,455,749	\$14,767,523	46%
HOUSING	6,888,925	1,520,928	22%
TOTALS	\$39,344,674	\$16,288,451	41%



Redevelopment Agency YTD Revenues

Percent of Actual to Budget



REVENUE CATEGORY	BUDGET	ACTUAL	% OF BUDGET	PRIOR YEAR TO DATE	% CHANGE FROM PRIOR YEAR
PROPERTY TAXES	\$15,522,000	\$7,518,573	48%	\$6,661,950	13%
INTEREST INCOME/RENTS	\$695,853	\$184,259	27%	\$388,464	-53%
OTHER REVENUE	\$153,090	\$5,089	3%	\$3,783	35%
TOTALS	\$16,370,943	\$7,707,921	47%	\$7,054,197	9%



Redevelopment Agency
 Fund Balance Report - Fiscal Year 2002/03
 For the Month of December 2002
 50% of Year Complete

Fund No.	Fund	Fund Balance 06-30-02	Revenues		Expenditures		Year to-Date Deficit or Carryover	Ending Fund Balance		Cash and Investments	
			YTD Actual	% of Budget	YTD Actual	% of Budget		Reserved ¹	Unreserved	Unrestricted	Restricted
317	CAPITAL PROJECTS	\$22,634,048	6,054,207	47%	12,362,456	46%	(6,308,249)	4,682,270	11,643,530	14,064,889	
327/328	HOUSING	\$20,841,201	1,653,714	47%	1,447,008	22%	206,706	17,179,189	3,868,718	3,955,100	
TOTAL CAPITAL PROJECT FUNDS		\$43,475,249	7,707,921	47%	13,809,464	41%	(6,101,543)	21,861,459	15,512,248	18,019,989	
SUMMARY BY FUND TYPE											
	CAPITAL PROJECTS GROUP	\$43,475,249	7,707,921	47%	13,809,464	41%	(6,101,543)	21,861,459	15,512,248	18,019,989	
TOTAL ALL GROUPS		\$43,475,249	7,707,921	47%	13,809,464	41%	(6,101,543)	21,861,459	15,512,248	18,019,989	
TOTAL CASH AND INVESTMENTS										18,019,989	

¹ Amount reserved for encumbrances, fixed asset replacement, long-term receivables



Redevelopment Agency
Year to Date Revenues - Fiscal Year 2002/03
For the Month of December 2002
50% of Year Complete

FUND REVENUE SOURCE	ADOPTED BUDGET	AMENDED BUDGETED	CURRENT YTD ACTUAL	% OF BUDGET	PRIOR YTD	INCREASE (DECREASE) FROM PRIOR YTD	% CHANGE
CAPITAL PROJECTS FUNDS							
317 CAPITAL PROJECTS							
Property Taxes & Supplemental Roll	12,084,000	12,084,000	5,913,129	49%	5,329,560	583,569	11%
Development Agreements	-	-	-	n/a	-	-	n/a
Interest Income, Rents	595,853	595,853	136,529	23%	371,116	(234,587)	-63%
Other Agencies/Current Charges	<u>152,500</u>	<u>152,500</u>	<u>4,549</u>	<u>3%</u>	<u>3,403</u>	<u>1,146</u>	<u>34%</u>
TOTAL CAPITAL PROJECTS	<u>12,832,353</u>	<u>12,832,353</u>	<u>6,054,207</u>	<u>47%</u>	<u>5,704,079</u>	<u>350,128</u>	<u>6%</u>
327/328 HOUSING							
Property Taxes & Supplemental Roll	3,438,000	3,438,000	1,605,444	47%	1,332,390	273,054	20%
Interest Income, Rent	100,000	100,000	47,730	48%	17,348	30,382	175%
Other	<u>590</u>	<u>590</u>	<u>540</u>	<u>92%</u>	<u>380</u>	<u>160</u>	<u>42%</u>
TOTAL HOUSING	<u>3,538,590</u>	<u>3,538,590</u>	<u>1,653,714</u>	<u>47%</u>	<u>1,350,118</u>	<u>303,596</u>	<u>22%</u>
TOTAL CAPITAL PROJECTS FUNDS	16,370,943	16,370,943	7,707,921	47%	7,054,197	653,724	9%



Redevelopment Agency
Year to Date Expenditures - Fiscal Year 2002/03
For the Month of December 2002
50% of Year Complete

FUND NO.	FUND/ACTIVITY	THIS MONTH ACTUAL EXPENDITURES	ADOPTED BUDGET	AMENDED BUDGET	YTD EXPENDITURES	OUTSTANDING ENCUMBRANCES	TOTAL ALLOCATED	% OF TOTAL TO BUDGET
317 CAPITAL PROJECTS								
	BAHS Administration	(4,276,528)	1,234,039	1,370,644	549,688	61,983	611,671	45%
	BAHS Economic Development	245,191	5,348,370	5,396,069	309,175	123,596	432,771	8%
	BAHS CIP	<u>6,063,496</u>	<u>12,771,000</u>	<u>25,689,036</u>	<u>11,503,593</u>	<u>2,219,488</u>	<u>13,723,081</u>	<u>53%</u>
	TOTAL CAPITAL PROJECTS	<u>2,032,159</u>	<u>19,353,409</u>	<u>32,455,749</u>	<u>12,362,456</u>	<u>2,405,067</u>	<u>14,767,523</u>	<u>46%</u>
327 AND 328 HOUSING								
	Housing	<u>110,532</u>	<u>6,313,976</u>	<u>6,888,925</u>	<u>1,447,008</u>	<u>73,920</u>	<u>1,520,928</u>	<u>22%</u>
	TOTAL HOUSING	<u>110,532</u>	<u>6,313,976</u>	<u>6,888,925</u>	<u>1,447,008</u>	<u>73,920</u>	<u>1,520,928</u>	<u>22%</u>
	TOTAL CAPITAL PROJECT FUND	2,142,691	25,667,385	39,344,674	13,809,464	2,478,987	16,288,451	41%



Redevelopment Agency of the City of Morgan Hill
Balance Sheet Report - Fiscal Year 2002/03
For the Month of December 2002
50% of Year Complete

	CAPITAL PROJECTS (Fund 317)	Housing (Fund 327/328)
ASSETS		
Cash and investments:		
Unrestricted	14,064,890	3,955,100
Accounts Receivable		20
Loans and Notes Receivable ¹	3,206,125	22,654,479
Advance to Other Funds		
Fixed Assets ²	71,049	
Other Assets		
Total Assets	17,342,064	26,609,599
LIABILITIES		
Accounts Payable and Accrued Liabilities	11,046	10,319
Deferred Revenue ³	999,969	5,549,211
Accrued Vacation and Comp Time	5,249	2,162
Total liabilities	1,016,264	5,561,692
FUND BALANCE		
Fund Balance		
Reserved for:		
Encumbrances	2,405,067	73,920
Advance to Other Funds		
Properties Held for Resale	71,049	
Loans and Notes Receivable	2,206,154	17,105,269
Total Reserved Fund balance	4,682,270	17,179,189
Unreserved Fund Balance	11,643,530	3,868,718
Total Fund Balance	16,325,800	21,047,907
Total Liabilities and Fund Balance	17,342,064	26,609,599

¹ Includes Housing Rehab loans and loans for several housing and Agency projects.

² Includes RDA properties held for resale.

³ Includes the deferred payment portion of the loans noted above.



REDEVELOPMENT AGENCY
STAFF REPORT

MEETING DATE: *January 22, 2003*

ANNUAL STATE REDEVELOPMENT REPORTS
FOR FISCAL YEAR 2001/02

Agenda Item # 2

Prepared By:

Finance Director

Submitted By:

Executive Director

RECOMMENDED ACTION:

File the 2001/02 Redevelopment Agency's Annual Report of Financial Transactions, Housing Annual Report of Housing Activity, and Property Report.

EXECUTIVE SUMMARY:

State law requires that each redevelopment agency annually prepare and submit to the State certain reports. It also requires that these reports be provided to the local legislative body, so these reports are being presented for your review. Staff has prepared and submitted to the State the attached "Annual Report of Financial Transactions" and "Annual Report of Housing Activity".

The Annual Report of Financial Transactions provides the details of Agency account balances at 6/30/2002 and financial activities for the 2001/02 year. It also includes the annual "Statement of Indebtedness", previously submitted to Santa Clara County, which summarizes all Agency indebtedness, as of 9/30/2002, as defined under State law. The Agency's indebtedness is comprised of obligations related to the low and moderate housing set-aside, statutory pass-throughs to other agencies, the County Courthouse, property acquisition for the Indoor Recreation Center, and property acquisition for the Sports Complex. Also included in the report sent to the State, but not attached to this staff report, were the Agency's financial statements for the 2001/02 fiscal year that were previously provided to the Board.

The attached Annual Report of Housing Activity provides financial and narrative detail concerning the Agency's 2001/02 housing activity.

Also attached (as the last page to this staff report) and required to be provided to the Board is a Property Report which lists all properties owned by the agency at 6/30/2002.

FISCAL IMPACT: N/A



CITY COUNCIL STAFF REPORT

MEETING DATE: January 22, 2003

TITLE - AMENDMENT TO AGREEMENT WITH THE LAW FIRM OF ENDEMAN, LINCOLN, TUREK & HEATER

RECOMMENDED ACTION:

Authorize the City Manager to execute an Amended Agreement with the law firm of Endeman, Lincoln, Turek & Heater.

Agenda Item # 3

Prepared By:

(Title)

Approved By:

(Department Director)

Submitted By:

City Manager

EXECUTIVE SUMMARY:

On July 10, 2002, the City entered into a contract in the amount of \$20,000 with the law firm of Endeman, Lincoln, Turek & Heater to defend the City of Morgan Hill and the City of Morgan Hill Rent Review Commission in two actions filed by Hacienda Valley Mobile Estates: (1) a lawsuit filed in the Santa Clara County Superior Court and (2) an appeal filed in the United States Court of Appeals for the Ninth Circuit. The current contract is insufficient to cover the fees and expenses associated with the upcoming demurrer hearing in the state court action and the appellate briefs and possible oral argument in the Ninth Circuit. Therefore, staff is recommending that Council approve the attached Amendment to Agreement increasing the contract amount to \$60,000. This amount should be sufficient to cover the anticipated fees and costs associated with the state and appellate court actions.

FISCAL IMPACT:

The cost of this Amendment to Agreement can be accommodated in the Mobile Home Rent Commission's budget. No additional appropriation is necessary at this time.



CITY COUNCIL STAFF REPORT

MEETING DATE: January 22, 2003

APPROVE PAYMENT TO SANTA CLARA COUNTY FOR VEGETATION ABATEMENT ON CITY-OWNED PROPERTY

RECOMMENDED ACTION(S): Approve payment in the amount of \$40,156.72 for vegetation abatement in FY01/02.

EXECUTIVE SUMMARY:

This payment is pursuant to our contract with the County Fire Marshall for hazardous vegetation abatement on City owned property. The work performed by the County includes disking and handwork on the City's open space, Assessment District and RDA owned properties. There are approximately 292 acres which require abatement. Per our agreement the charges for these services include a reduced administrative fee of 75% of the cost of the contractor.

FISCAL IMPACT:

The current year's budget includes \$45,000 that was appropriated for the abatement of vegetation on City owned properties.

Agenda Item # 4

Prepared By:

Management Analyst

Approved By:

Department Director

Submitted By:

City Manager



CITY COUNCIL STAFF REPORT

MEETING DATE: JANUARY 22, 2002

INSTALLATION OF FOUR-WAY STOP SIGNS AT SPRING AVENUE/WILLOW CREEK DRIVE INTERSECTION

RECOMMENDED ACTION(S): For City Council information only

EXECUTIVE SUMMARY: As City Council is aware, a petition was submitted by Mr. Gerry Lyon, a Spring Avenue resident, requesting the installation of stop signs along Spring Avenue. Staff was asked to review the traffic conditions of Spring Avenue between Del Monte and DeWitt and evaluate for the possible installation of stop signs. Staff had traffic counts conducted just before Christmas that reflected average weekday traffic volume on Spring Avenue was 1,374 vehicles per day, a relatively low traffic volume for a residential collector street. Staff also reviewed traffic accident history, pedestrian safety and other traffic engineering data related issues of the street, and both the Police Chief and the Public Works Director recommend the installation of four-way stop signs at the Spring/Willow Creek intersection based upon traffic engineering judgment factors including: 1) the Willow Creek Drive intersection is approximately midway between DeWitt and Del Monte Avenues, 2) Willow Creek Drive has the highest average daily traffic volume (528 vehicles per day on a weekday prior to Christmas), 3) a stop sign at this location would enhance pedestrian safety by allowing safe pedestrian crossings midway between DeWitt and Del Monte Avenues.

The remaining intersections noted in the petition have extremely low volume cross traffic and staff cannot recommend the installation of stop signs based upon the exercise of good traffic engineering judgment. The stop signs with pavement markings and interim high visibility flashing lights will be installed within the next 30 to 60 days.

Mr. Lyon has been notified of staff's recommendation and has been given a copy of the staff report.

FISCAL IMPACT: The cost for installation of the stop signs with pavement markings and interim flashing lights will be approximately \$2,000 and can be funded from the current year Street Operations budget.

Agenda Item # 5

Prepared By:

Public Works Director

Submitted By:

City Manager



CITY COUNCIL STAFF REPORT

MEETING DATE: JANUARY 22, 2003

**TITLE: ACCEPTANCE OF SUBDIVISION IMPROVEMENTS FOR
TRACT 9451, CAPRIANO PH.IV**

RECOMMENDED ACTION(S):

1. Adopt the attached resolution accepting the subdivision improvements included in Tract 9451, commonly known as Capriano Ph.IV.
2. Direct the City Clerk to file a Notice of Completion with the County Recorder's office.

EXECUTIVE SUMMARY: This 11 lot subdivision is located at the intersection of Dougherty Avenue and Curry Avenue (see attached location map). The subdivision improvements have been completed in accordance with the requirements of the Subdivision Improvement Agreement between the City of Morgan Hill and Shea Homes and Glenrock Builders, dated September 9, 2002 and as specifically set forth in the plans and specifications approved by the City.

The streets to be accepted are:

<u>Street Name</u>	<u>Street Length</u>
Basil Court	0.10 miles
Saffron Drive	0.06 miles

FISCAL IMPACT: Staff time for this project was paid for by development fees.

Agenda Item # 6

Prepared By:

Senior Engineer

Approved By:

Public Works Director

Submitted By:

City Manager

RESOLUTION NO. 5631

**A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF
MORGAN HILL ACCEPTING THE SUBDIVISION
IMPROVEMENTS FOR TRACT 9451, CAPRIANO PH. IV.**

WHEREAS, the owner of Tract 9451, designated as Capriano Ph. IV, entered into a Subdivision Improvement Agreement on September 9, 2002: and

WHEREAS, Jim Ashcraft, City Engineer, has certified in writing to the City Council that all of said improvements have been installed according to the City specifications and plans for said subdivision.

NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF MORGAN HILL, CALIFORNIA, AS FOLLOWS:

1. The City Council hereby finds and determines that all public improvements required to be constructed pursuant to the above-mentioned Subdivision Improvement Agreement have been completed in accordance with the plans and specifications for said improvements.
2. This resolution shall constitute an interim acceptance of all said public improvements and the date of its passage shall constitute the starting day for computing the one year maintenance provisions referred to in Paragraph 10 of the Subdivision Improvement Agreement of September 9, 2002.
3. The City Clerk, following adoption of this resolution, will file with the Recorder of Santa Clara County, California a Notice of Completion of the subdivision public improvements.
4. If requested by the developer or subdivider, the City Clerk hereby is authorized to record a certified copy of this resolution with the Recorder of Santa Clara County, California.

PASSED AND ADOPTED by the City Council of Morgan Hill at a Special Meeting held on the 22nd Day of January, 2003, by the following vote.

AYES: COUNCIL MEMBERS:
NOES: COUNCIL MEMBERS:
ABSTAIN: COUNCIL MEMBERS:
ABSENT: COUNCIL MEMBERS:

🔐 CERTIFICATION 🔐

I, IRMA TORREZ, CITY CLERK OF THE CITY OF MORGAN HILL, CALIFORNIA, do hereby certify that the foregoing is a true and correct copy of Resolution No. 5631, adopted by the City Council at the Special Meeting on January 22, 2003.

WITNESS MY HAND AND THE SEAL OF THE CITY OF MORGAN HILL.

DATE: _____

IRMA TORREZ, City Clerk

Record at the request of
and when recorded mail to:

CITY OF MORGAN HILL
CITY CLERK
17555 Peak Avenue
Morgan Hill, CA 95037

RECORD AT NO FEE PURSUANT TO GOVERNMENT CODE SECTION 27383

NOTICE OF COMPLETION

CITY OF MORGAN HILL

TRACT 9451, CAPRIANO PH. IV.

NOTICE IS HEREBY GIVEN, pursuant to Section 3093 of the Civil Code of the State of California, that the Director of Public Works of the City of Morgan Hill, California, signed below, represents the City of Morgan Hill as the owner of the public improvements for the above named development. Said improvements were substantially completed on January 6, 2003, by Shea Homes and Glenrock Builders, the subdivider of record and accepted by the City Council on January 22, 2003. Said improvements consisted of public streets, utilities and appurtenances.

The name of the surety on the contractor's bond for labor and materials on said project is St. Paul Fire and Marine Insurance Company.

Name and address of Owner: City of Morgan Hill
17555 Peak Avenue
Morgan Hill, California

Dated: _____, 2003.

Jim Ashcraft, Director of Public Works

I certify under penalty of perjury that the foregoing is true and correct.

Irma Torrez, City Clerk
City of Morgan Hill, CA
Date: _____



CITY COUNCIL STAFF REPORT

MEETING DATE: January 22, 2003

POLICY REVISION – RESIDENTIAL DEVELOPMENT CONTROL SYSTEM, AFFORDABLE PROJECTS

RECOMMENDED ACTION: Approve the recommended policy changes to projects competing under the Affordable Housing category.

EXECUTIVE SUMMARY: With the City Council's conceptual approval of the Watsonville Road teacher housing project, we are required to amend the existing Council adopted "Measure P Application, Allocation and Scoring Policies (see attached)." This amendment will allow the Watsonville Road project, with proposed duets priced to 120% of median household income, to apply under the Measure P affordable housing category.

Since we are amending the policy for the Watsonville Road project, we are recommending other modifications to the Affordable Housing category to reflect: 1) the greater diversity of project and income types which might be encouraged within this competition; 2) the previous revisions made to the Measure P application; and 3) the changes to the BMR administrative policies over that time period. The policy was last amended in June 1994. Planning has reviewed and supports the proposed modifications. The following are the recommended changes:

For Sale Housing

- Restrict all units in accordance with applicable State Redevelopment Law
- No units may be priced above the affordability level for a household of four with an income equal to 120% of the County median. These prices are to be pre-approved by the City.
- Homes must be sold to income qualifying households who have been pre-approved by the City.

These revisions encourage a greater diversity of affordable housing to be developed. They set the basic standard for applying in the Affordable Housing category. Once accepted, however, a project would still have to earn sufficient points within the competition to qualify for building allocations.

For Rent Projects

- Restrict all units in accordance with applicable State Redevelopment Law.
- At least 49% of the units must be restricted to households with incomes at or below 50% of County median as adjusted for family size.
- At least an additional 10% of the units must be restricted to households with incomes below 60% of County median as adjusted for family size.
- No unit restrictions may exceed 100% of County median as adjusted for household size.

These revisions allow a greater diversity of incomes within a project and better reflect community needs.

FISCAL IMPACT: The proposed changes in policy would not have a fiscal impact.

Agenda Item # 7

Prepared By:

BAHS Analyst

Approved By:

BAHS Director

Submitted By:

City Manager

CITY OF MORGAN HILL

CITY COUNCIL POLICIES AND PROCEDURES

CP 94-06

SUBJECT: MEASURE P APPLICATION, ALLOCATION AND SCORING POLICIES

DATE: JUNE 17, 1991
(Revised June 15, 1994, and January 22, 2003)

MEASURE P APPLICATION, ALLOCATION AND SCORING POLICIES

It shall be the policy of the City of Morgan Hill to utilize the following policies to define, allocate and score project applications competing under the Residential Development Control System.

1. APPLICATION

1. Small Projects:

A small project is defined as any residential development of 5-15 units. A small project must be located on a site with an ultimate development potential of no more than 15 units.

2. Micro Projects:

A micro project is defined as residential development consisting of a maximum of for (4) dwelling units. A micro project must also be located on a site with an ultimate development potential of no more than 4 units.

3. Custom Lots:

A custom lot development is defined as a project which includes the opportunity for individuals to purchase lots. Custom lots shall be defined as follows:

- Minimum lot size shall be based on the underlying zoning (no RE or large lot minimums).
- The original developer can retain ownership of up to 50% of the lots. The balance of the lots must be made available for purchase by individual builders who wish to construct homes.
- Of the "for sale lots", no more than 2 lots may be purchased by any one person.
- Exterior elevations should vary throughout the project and floor plans may not be repeated but can be reversed if elevation is varied.

II. APPLICATION SCORING

1. Response Time for Police and Fire:

A five (5) minute response standard for police and fire services shall be used for Part 1 of the RDCS evaluation.

2. Core Area Definition:

For purposes of evaluating projects under the Orderly and Contiguous Category of the project evaluation criteria, the Core Area of the community is defined by the westerly extension of Half Road on the north, the Freeway on the east, Tennant/Edmundson Avenue on the south, and the base of the foothills on the west. Also, a project located within the Madrone Residential Area will be awarded the same number of points as projects located within the Core Area. If a project is located outside the Madrone Area, the number of points received will be based on the distance of the project from the Core Area.

3. Timing of Micro Project Competitions:

The micro project competitions will be conducted twice each year (in the month of April and October) by the Community Development Department staff in consultation with other city departments. The Planning Commission will review staff's evaluation when the number of residential units in proposed developments exceeds the number of allotments authorized to be distributed in the competition.

III. AFFORDABLE COMPETITION

1. Eligibility:

In order to be eligible to ~~receive allocations~~allocations apply in the Affordable Measure P competition, ~~units within~~ each project shall ~~be affordable to the following income groups:~~

A. restrict all units in accordance with applicable State Redevelopment Law. In addition, the following basic requirements must be met:

A. For Sale Projects: 100% of the units must be affordable at or below ~~80%~~80%120% of the county median income, computed for a family ~~size of four~~size of four and adjusted annually by the State of California Department of Housing and Community Development (State HCD).

B.

Proposed home prices must be pre-approved by the City.

Homes must be sold to income qualifying households who have been pre-approved by the City.

B. For Rent Project Projects: 49% of the units in each project must be Affordable ~~as described above, and 51% of the units in each project must be affordable~~ at no greater than ~~100%~~100%50% of the county median income, computed for family size and adjusted annually be State HCD.

At least an additional 10% of the units must be restricted to households with incomes below 60% of the county median, as computed for family size.

The remaining units must be restricted at or below 100% of county median, as computed for family size.

2. Award of Allotments:

Allotments shall be made to project in the affordable competition without regard to housing types, provided that at least 20% of all allotments in the affordable competition are for multi-family dwellings and at least 30% of all multi-family dwellings are rental units.

Building allotments will be awarded to projects on a first come, first served basis from a pool of building allotments. Affordable projects must receive the required minimum passing score in both Part I and II of the RDCS in order to be awarded allotments.

Joe R. MartucciMartucciDennis Kennedy, Mayor



CITY COUNCIL STAFF REPORT

MEETING DATE: January 22, 2003

Agenda Item # 8

Prepared By:

**Assistant to the City
Manager**

Submitted By:

City Manager

RESTORATION OF VEHICLE LICENSE FEES

RECOMMENDED ACTION:

Adopt Resolution on the Restoration of the VLF

EXECUTIVE SUMMARY:

The Governor's proposed budget includes the elimination of the VLF backfill support that the State currently provides to the City. This backfill, created in 1998 when the State lowered the VLF, represents approximately \$1.4 million or 8% of our General Fund. Naturally, cities throughout the State are organized in opposition to this reduction. VLF revenues are constitutionally dedicated for local government support and the State promised to make local governments whole when the VLF reduction was instituted.

Speaker Herb Wesson is introducing legislation to restore the VLF to its proper level. The attached resolution urges our representatives, Assemblymember Laird and Senator McPherson, to support this legislation.

FISCAL IMPACT:

While there is no direct impact resulting from this item, the loss of VLF backfill funds, if adopted, would represent a significant reduction in General Fund revenues.

RESOLUTION NO. 5632

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF MORGAN HILL URGING THE CALIFORNIA LEGISLATURE TO REJECT THE GOVERNOR'S PROPOSED SHIFT OF LOCAL VEHICLE LICENSE FEES (VLF) REVENUES AND TO HONOR THE 1998 COMMITMENT TO RESTORE THE VEHICLE LICENSE FEES

WHEREAS, prior to 1935, cities and counties collected property taxes on motor vehicles to fund essential local public health and safety services; and

WHEREAS, in 1935, the Legislature first enacted the Vehicle License Fee (VLF) Act, replacing the property tax on vehicles with a 1.75 percent fee charged against the value of the motor vehicle; and

WHEREAS, in 1948, the rate of the VLF was increased to 2 percent of the value of the vehicle; and

WHEREAS, in 1986, the voters voted overwhelmingly to constitutionally dedicate the proceeds of the VLF to fund city and county services; and

WHEREAS, in 1998, a period of strong economic growth, the Legislature approved the use of a portion of the rapidly growing state General Fund to reduce the VLF payments of vehicle owners. This amount, known as the "offset", grew in future years to a 67.5 percent offset against the amount owed. The amount paid to local governments in lieu of the reduced VLF payment is known as the "VLF backfill"; and

WHEREAS, the 1998 legislation and subsequent enactments contain clear provisions that when insufficient funds are available to be transferred from the General Fund to fully fund the offsets and backfill amount that the VLF offset shall be reduced and VLF payments increased; and

WHEREAS, VLF and backfill revenues constitute 15 to 25 percent of typical city and county general purpose revenues. On average, more than 60 percent of city general fund spending and more than half of county general funds go to front line law enforcement, fire, emergency medical services, and health care programs.

WHEREAS, revenues derived from the VLF and backfill are of critical importance in funding vital local public health and safety services; and

WHEREAS, any failure by the Legislature to maintain the VLF backfill or restore the VLF will cause widespread disruption in local government services essential to the well-being of California citizens and their cities and counties; and

WHEREAS, Governor Davis' proposal to divert \$4 billion in local VLF backfill payments over the next 17 months fails to honor the 1998 commitment and is a direct assault on local services that will be felt by every California resident; and

WHEREAS, shifting \$4.2 billion in locally controlled revenues for local services is neither equitable nor fair. No state program or department has been asked to shoulder such a disproportionate share of the budget pain. These cuts come on top of the nearly \$5 billion each year that is transferred from local services to fund state obligations.

NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF MORGAN HILL, CALIFORNIA, that if the state General Fund can no longer afford the expense of part or all of the VLF "backfill" that the Legislature and Governor of California are hereby respectfully urged to implement the provisions of current law providing for the reduction of the VLF offset in bad economic times and to restore the VLF in an amount necessary to reduce the VLF backfill; and

RESOLVED FURTHER, that the City of Morgan Hill hereby expresses its profound appreciation to the legislators who support such VLF restoration legislation.

PASSED AND ADOPTED by the City Council of Morgan Hill at a Special Meeting held on the 22nd Day of January, 2003, by the following vote.

AYES: **COUNCIL MEMBERS:**
NOES: **COUNCIL MEMBERS:**
ABSTAIN: **COUNCIL MEMBERS:**
ABSENT: **COUNCIL MEMBERS:**

☞ CERTIFICATION ☞

I, IRMA TORREZ, CITY CLERK OF THE CITY OF MORGAN HILL, CALIFORNIA, do hereby certify that the foregoing is a true and correct copy of Resolution No. 5632, adopted by the City Council at a Special Meeting on January 22, 2003.

WITNESS MY HAND AND THE SEAL OF THE CITY OF MORGAN HILL.

DATE: _____

IRMA TORREZ, City Clerk



CITY COUNCIL STAFF REPORT

MEETING DATE: January 22, 2003

PUBLIC MEETING REGARDING WATER & SEWER RATES

RECOMMENDED ACTIONS:

- 1) Discuss proposed water and sewer user rates
- 2) Direct staff to return on February 5, 2003, at a public hearing for consideration of adjustments to water user rates

EXECUTIVE SUMMARY: At the November 13 workshop, the City's sewer and water rate consultant, Hilton Farnkopf & Hobson, presented their study of the City's sewer and water revenue requirements, including proposed rate adjustments. The rates were last adjusted in 1997. The consultant has not recommended any changes to the City's basic water or sewer rate structures and no such changes are proposed at this time. At the workshop, staff was directed to analyze the target zone for each of the water reserve funds and then determine their cumulative effects, and also to schedule a public hearing for consideration of water rate adjustments. Staff was also directed to bring sewer rates to the Finance & Audit Committee and to schedule a City Council workshop on the sewer rate structure.

For water rates, the consultant provided three options. The Finance and Audit Committee reviewed the ten year projections of water financial activity and recommended the option that increases water rates by 2% for each of the next five years. The attached Exhibit A includes 2% increases in April 2003 and in January of 2004, 2005, 2006, and 2007. In addition, in response to Council feedback, staff proposes that the Finance Director report to the City Council by each September 30 prior to each January increase regarding the need for the January increase, and, if warranted, the City Council would have the opportunity to eliminate that increase. The attached ten year projection of financial activity for the water funds reflects the following three components of proposed reserve levels for the water funds, and almost reaches the combined target reserve level by 2006/07:

(1) operating reserve = 25% of operating expenses (1.5 times the annual maximum fluctuation in the water fund balances) (**highest priority**);

(2) capital reserve = greater of one year's average 5 year CIP costs or minimum amount necessary to keep the Capital Reserve above \$0 (**second priority**); and

(3) rate stabilization reserve = 20% of annual operating revenue for revenue shortfalls (**lowest priority**).

Staff recommends inclusion of all 3 reserves. However, if the City Council chooses to not finance the rate stabilization reserve, the same increases should be implemented except that the 2% increase in January 2007 should be eliminated, since this would keep reserves above the two highest priority target reserve levels. This action would result in potential rate adjustments if a revenue shortfall were to occur.

For sewer rates, the Finance and Audit Committee analyzed the attached ten year projection of financial activity for the sewer funds and determined that it would be imprudent to reduce sewer rates because, even though fund balances currently exceed target reserve levels, the significant projected drop in reserve levels after 2006/07 would be worse if rates were reduced. The Committee also did not recommend sewer rate increases at this time. Staff will schedule a future City Council workshop to discuss the existing sewer rate structure.

Following tonight's public meeting, staff recommends that a public hearing be scheduled for February 5 for final consideration of proposed water rate adjustments. If rates are adjusted on February 5, there would be sufficient time to notify the public and implement rate adjustments as of April 1.

FISCAL IMPACT: To fully fund water operations and recommended reserves, water rates should be adjusted as reflected in Exhibit A. It is not necessary to adjust sewer rates at this time.

Agenda Item # 9

Prepared By:

Finance Director

Submitted By:

City Manager

wtrrts

CITY OF MORGAN HILL
WATER COMMODITY AND SERVICE RATES

EXHIBIT A (P. 1 of 2)

	CURRENT RATES	CURRENT RATES	APRIL 2003	APRIL 2003	JANUARY 2004	JANUARY 2004	JANUARY 2005	JANUARY 2005	JANUARY 2006	JANUARY 2006	JANUARY 2007	JANUARY 2007
	<i>Inside City</i>	<i>Outside City</i>	<i>Inside City</i>	<i>Outside City</i>	<i>Inside City</i>	<i>Outside City</i>	<i>Inside City</i>	<i>Outside City</i>	<i>Inside City</i>	<i>Outside City</i>	<i>Inside City</i>	<i>Outside City</i>
MONTHLY SERVICE CHARGES:												
Meter Size:												
5/8"	4.90	7.60	5.00	7.75	5.10	7.91	5.20	8.07	5.30	8.23	5.41	8.39
3/4"	4.90	7.60	5.00	7.75	5.10	7.91	5.20	8.07	5.30	8.23	5.41	8.39
1"	4.90	7.60	5.00	7.75	5.10	7.91	5.20	8.07	5.30	8.23	5.41	8.39
1 & 1/2"	8.15	12.65	8.31	12.90	8.48	13.16	8.65	13.42	8.82	13.69	9.00	13.97
2"	13.10	20.30	13.36	20.71	13.63	21.12	13.90	21.54	14.18	21.97	14.46	22.41
3"	26.15	40.55	26.67	41.36	27.21	42.19	27.75	43.03	28.31	43.89	28.87	44.77
4"	42.35	65.65	43.20	66.96	44.06	68.30	44.94	69.67	45.84	71.06	46.76	72.48
6"	65.05	101.00	66.35	103.02	67.68	105.08	69.03	107.18	70.41	109.33	71.82	111.51
8"	97.75	151.50	99.71	154.53	101.70	157.62	103.73	160.77	105.81	163.99	107.92	167.27
10"	130.35	202.05	132.96	206.09	135.62	210.21	138.33	214.42	141.10	218.71	143.92	223.08
Low income discounts:												
	(2.95)	(2.95)	(3.01)	(3.01)	(3.07)	(3.07)	(3.13)	(3.13)	(3.19)	(3.19)	(3.26)	(3.26)

wtrrts

CITY OF MORGAN HILL
WATER COMMODITY AND SERVICE RATES

EXHIBIT A (P. 2 of 2)

	CURRENT RATES <i>Inside City</i>	CURRENT RATES <i>Outside City</i>	APRIL 2003 <i>Inside City</i>	APRIL 2003 <i>Outside City</i>	JANUARY 2004 <i>Inside City</i>	JANUARY 2004 <i>Outside City</i>	JANUARY 2005 <i>Inside City</i>	JANUARY 2005 <i>Outside City</i>	JANUARY 2006 <i>Inside City</i>	JANUARY 2006 <i>Outside City</i>	JANUARY 2007 <i>Inside City</i>	JANUARY 2007 <i>Outside City</i>
COMMODITY RATE:												
<u>Single Family</u>												
<u>Tier Rates</u>												
<i>(Per Dwelling Unit per hundred cubic feet)</i>												
1-10 HCF	0.95	1.47	0.97	1.50	0.99	1.53	1.01	1.56	1.03	1.59	1.05	1.62
11-30 HCF	1.90	2.95	1.94	3.01	1.98	3.07	2.02	3.13	2.06	3.19	2.10	3.26
30+ HCF	2.85	4.42	2.91	4.51	2.97	4.60	3.02	4.69	3.08	4.78	3.15	4.88
<u>Multi-Family</u>												
<u>Tier Rates</u>												
<i>(Per Dwelling Unit per hundred cubic feet)</i>												
1-8 HCF	0.95	1.47	0.97	1.50	0.99	1.53	1.01	1.56	1.03	1.59	1.05	1.62
9-16 HCF	1.90	2.95	1.94	3.01	1.98	3.07	2.02	3.13	2.06	3.19	2.10	3.26
17+ HCF	2.85	4.42	2.91	4.51	2.97	4.60	3.02	4.69	3.08	4.78	3.15	4.88
<u>Non-Residential</u>												
<i>(Per hundred cubic feet)</i>												
All uses	1.55	2.40	1.58	2.45	1.61	2.50	1.64	2.55	1.68	2.60	1.71	2.65



CITY OF MORGAN HILL

WATER AND SEWER FUND REVENUE REQUIREMENTS STUDY

HILTON FARNKOPF & HOBSON, LLC



October 17, 2002

City of Morgan Hill

17555 PEAK AVENUE

MORGAN HILL, CA 95037

WATER AND SEWER FUND REVENUE REQUIREMENTS STUDY

OCTOBER 17, 2002



Hilton Farnkopf & Hobson, LLC

2175 N. California Blvd., Suite 990

Walnut Creek, CA 94596

TEL: (925) 977-6950 FAX: (925) 977-6955

October 17, 2002

Mr. Jack Dilles, Director
Finance Department
City of Morgan Hill
17555 Peak Avenue
Morgan Hill, CA 95037

Subject: Water and Sewer Fund Revenue Requirements Study

Dear Mr. Dilles:

Hilton Farnkopf and Hobson, LLC is pleased to present the City with this Water and Sewer Fund Revenue Requirements Study.

This report updates our earlier April 2002 report to account for recent changes in the fiscal year 2002-03 budget and projections through fiscal year 2006-07. Potential rate and debt funding options to meet revenue requirements are also briefly summarized.

If you have any questions about this study, please contact me at 925-977-6953, or Greg Clumpner at 530-759-1650.

Very truly yours,

HILTON FARNKOPF & HOBSON, LLC

John W. Farnkopf, P.E.
Senior Vice President

Attachments

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I. EXECUTIVE SUMMARY

Hilton Farnkopf and Hobson, LLC (HF&H) has prepared this report for the City of Morgan Hill (the City) under a subcontract with DMG Maximus, Inc. The following is a brief summary.

WHY WAS THIS STUDY PREPARED?

The City has studied its water and sewer rates within the last few years and is reasonably satisfied with its current water and sewer rate structure. However, the City has been updating its water and sewer master plans and capital improvement programs, and wanted to review the impacts these changes may have on the revenue requirements for these utilities. The primary purpose of this study is to evaluate revenue requirements. Rate and funding options are only present briefly for informational purposes and not to provide recommendations on rate adjustments.

WHAT DID THE STUDY ENTAIL?

Beginning in August of 2001, HF&H evaluated the City's current water and sewer rates, considered the revised costs of planned capital improvements, projected the overall revenue requirements, and calculated the rate increases needed to meet future operating and capital costs. In an April 2002 version of this report, HF&H presented 5-year financial plans for both Water and Sewer Funds. This plan outlined contributions to fund reserves, year-end balances, the funding sources for capital projects, and prepared projections of rate increases. Since that study was completed, the City's budgets have continued to change, necessitating this update. In particular, the City has responded to increasing costs in the water fund by re-examining and reducing its budgeted expenses, including the cost, timing, and need for capital projects.

WHAT ARE THE PROJECTED REVENUE REQUIREMENTS?

Based on the City's estimated actual FY 01-02 and adopted FY 02-03 budgets and input from HF&H, City staff made additional adjustments to the projected water and sewer revenue requirements. HF&H has reviewed and incorporated these projections. Table ES-1 and Figures ES-1 and ES-2 show the resulting projections over the next four years. It should be noted that the "Percent Change" shown for both the Water and Sewer Funds in Table ES-1 represents the change from year to year in the revenue requirements, not rate increases.

This table and these figures illustrate the dramatic increase in Water Fund revenue requirements from FY 00-01 to FY 01-02 due to higher costs of capital projects and to a lesser extent the drop in non-rate revenues. After a return to more normal levels of capital costs in FY 03-04, the projected revenue requirements are characterized by smaller, steadier increases.

The changes in the Sewer Fund projections are more gradual and less dramatic.

Table ES-1

Summary of Water & Sewer Revenue Requirements*City of Morgan Hill*

	FY'00-01	FY'01-02	FY'02-03	Projected Revenue Requirements			
	Est. Actual	Est. Actual	Current Plan	FY'03-04	FY'04-05	FY'05-06	FY'06-07
Water Fund (650)							
Water Operations	\$2,807,834	\$3,595,764	\$4,194,719	\$4,373,600	\$4,446,400	\$4,562,900	\$4,682,700
Water Purchases	\$871,271	\$1,005,316	\$1,115,847	\$1,217,000	\$1,279,000	\$1,343,000	\$1,411,000
Transfers Out (In)	\$987,950	\$2,079,808	\$3,269,799	\$1,481,800	\$1,032,537	\$1,055,937	\$1,080,037
less Non-Rate Revenue	<u>(\$674,656)</u>	<u>(\$356,495)</u>	<u>(\$401,347)</u>	<u>(\$419,500)</u>	<u>(\$427,700)</u>	<u>(\$436,100)</u>	<u>(\$444,700)</u>
Net Revenue Req'ts.	\$3,992,399	\$6,324,393	\$8,179,018	\$6,652,900	\$6,330,237	\$6,525,737	\$6,729,037
Percent Change		58%	29%	-19%	-5%	3%	3%
Sewer Fund (640)							
Sewer Operations	\$5,082,136	\$5,297,634	\$5,983,857	\$5,968,988	\$6,053,546	\$6,180,346	\$6,310,646
Transfers Out (In)	\$978,706	\$850,543	\$391,377	\$503,100	\$765,200	\$877,700	\$890,600
less Non-Rate Revenue	<u>\$ (412,500)</u>	<u>\$ (417,402)</u>	<u>\$ (422,000)</u>	<u>\$ (434,000)</u>	<u>\$ (446,000)</u>	<u>\$ (459,000)</u>	<u>\$ (473,000)</u>
Net Revenue Req'ts.	\$5,648,342	\$5,730,775	\$5,953,234	\$6,038,088	\$6,372,746	\$6,599,046	\$6,728,246
Percent Change		1%	4%	1%	6%	4%	2%

Source: Water and Sewer Rate Model Tables FP-W1 and FP-S1.

Figure ES-1 - Projected Water Fund Revenue Requirements
(with Level Rate Increases of 2%/year - for Illustration Purposes)

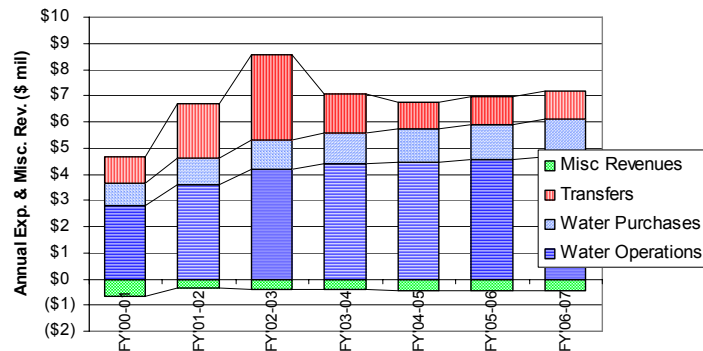
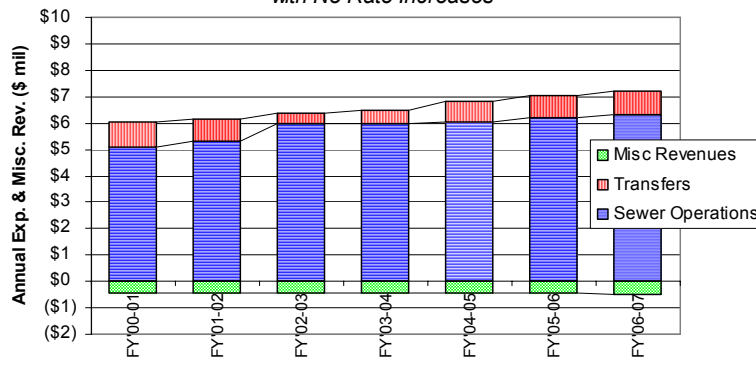


Figure ES-2 - Annual Sewer Fund Revenue Requirements
with No Rate Increases



WHAT ARE THE RATE AND FUNDING ALTERNATIVES?

To meet revenue requirements in the Water Fund, the City could pursue one of the following options, or some combination of these alternatives:

- **Alternative 1 - Level Water Rate Increases of 2%/Year** – Adopting a water rate increase of 2%/year beginning in FY 02-03 would be sufficient to meet revenue requirements.
- **Alternative 2 - One-Time Rate Increase of 8%** – This one-time rate 8% increase in FY 02-03 could be used to meet the revenue requirements and target reserve fund levels through the end of FY 06-07.
- **Alternative 3 - Additional Debt Only** – If the City chose to not increase rates through FY 06-07, it could still meet the water utility's revenue requirements by issuing an additional \$2 million in revenue bonds, or other debt, in or around FY 04-05 to meet the capital projects requirements and target reserve levels.

It appears the City would not need to increase rates in the Sewer Fund to meet projected revenue requirements, assuming the City issues the \$8 million in revenue bond proceeds in FY 04-05 as currently shown in the 5-year capital improvement program.

WHAT OTHER FINDINGS DOES HF&H MAKE IN THIS REPORT?

Based on our review, the City should consider the following findings along with the results of the revenue requirements:

- **Rate Structures** – The City's current water and sewer rate structures do not warrant any significant revisions.
- **Rate Adjustments** – As a next step, the City should carefully evaluate the projected expenditures in the CIP program and the rate adjustments and/or debt funding needed over the next few years to meet these revenue requirements.
- **Future Review** – The City should annually review the assumptions used in developing the budgets, revenue requirements, and capital expenditures.

II. INTRODUCTION

In the last few years, the City studied its water and sewer rates, including public workshops. As a result, the City already has a rate structure that meets many of the City's ratemaking objectives. Therefore, when the City initially retained HF&H to review the existing rates, our primary objective was to identify further improvements and rate adjustments needed to meet future revenue requirements. The City also requested that we do this within the context of a 5-year financial plan for both the Water and Sewer Funds.

City staff requested that the emphasis in this report be on the projected revenue requirements, while also providing a brief overview of alternatives for adjusting water and sewer rates. City staff have also indicated that the City Council and other stakeholders will review these revenue requirements and determine what additional analysis, if any, is needed prior to considering any rate changes.

The following report provides a brief overview of the proposed 5-year financial plans, and several alternative rate adjustments for informational and illustrative purposes.

STUDY APPROACH

The initial study task was to collect input from City staff, including the current budget, rate structure, and other financial information for both the Water and Sewer Funds. As a part of the initial rate review, we also reviewed the City's water consumption records and sewer customer characteristics, which play a role in determining equitable water and sewer rates.

To address the equity of rates and the appropriateness of the rate structures, we developed rate models for both Water and Sewer Funds, and developed financial plans for each utility. The technical core of these rate models and financial plans addressed how costs are allocated among various customer classes, the contributions needed in the City's reserve funds, and how to meet future revenue requirements. The 5-year planning period addressed was FY 02-03 through FY 06-07.

Some of the basic assumptions used in these rate models included:

- Projected growth in customer accounts: 2.0%/year
- Projected escalation in employee salaries: 3.0%/year
- Projected general inflation rate: 3.0%/year
- Projected interest earnings rate: 4.0%/year

Some of the more specific assumptions include:

- Current SCVWD water rates (i.e., the pump tax) will increase at 3%/year, and the City will also pay for more water due to growth-related increases in total

consumption. However, these 3%/year rate increases are less than half the increases that SCVWD is projecting, and any increases above this 3% will directly increase the City's water revenue requirements.

- The City will be reimbursed \$700,000 in FY 03-04 for well construction costs it incurred on behalf of other entities.
- The FY 02-03 transfer of \$1.3 million from operations to the Water Impact Fund (651) will be repaid to the operations fund before the end of the study period.
- We assumed that debt service on any new revenue bonds is based on a repayment period of 20 years, an interest rate of 6%, and issuance and reserve fund requirements amounting to 10% of the net bond proceeds.
- Any optional rate increases in FY 02-03 would take effect on April 1, 2003 and, therefore, would only generate additional rate revenue in the last quarter of the fiscal year. However, these rate increases would carry over to subsequent years and generate additional rate revenues for the remainder of the study period.

Although projected expenditures reflect the City's most recent budgets, in an effort to reduce total water revenue requirements in FY 02-03 and thereafter City staff and HF&H have made additional adjustments to water operating costs, capital costs, and how transfers and reserve funds are used. Therefore, the Water Fund "current plan" budget for FY 02-03 is different than the adopted FY 02-03 budget.

Projected expenditures after FY 02-03 generally assume costs are inflated at 3 percent per year. The SCVWD currently projects rate increases of approximately 30 percent between FY 02-03 and FY 06-07. However, the City's past experience is that SCVWD increases are not as great as projected. Because of this, the City is assuming only a 3%/year rate increase in SCVWD's pump tax rates during the next four years. Any additional SCVWD increases would directly increase the City's water revenue requirements.

Once the budget data were collected and the budget adjustments accounted for, initial rate model and financial plans were developed. Using these tools, we evaluated the projected operations budgets and the resulting net revenue required from water and sewer. Those net revenue requirements are the result of the following factors:

+ Operating Expenses (from Budgets)
+ Reserve Fund Transfers Out (or In)
+ CIP Funding Needs
- Non-Rate Revenues
<hr/>
Net Revenue Requirements

III. WATER AND SEWER 5-YEAR FINANCIAL PLANS

After reviewing the cost allocations to the customer classes, we concluded that the City need not substantially change its rate structures. We therefore focused our efforts on the revenue requirements, fund balances, and potential rate increases needed, which are reflected in the financial plans. Alternative rate adjustments are discussed in the last section.

This section presents the 5-year financial plans for the Water and Sewer Funds. These plans consist of projected revenue requirements, transfers between reserve funds, and ending-year reserve fund balances. These components are discussed individually below. Supporting tables, including details of the budget projections, are provided in Appendix A for water revenue requirements, and in Appendix B for the sewer.

WATER FINANCIAL PLAN

Revenue Requirements

The projected revenue requirements for the Water Operations Fund (650) are presented in Table FP-W1A and Figure 1A. For illustration purposes, we have assumed that rate increases of 2% per year are implemented in order to meet reserve fund target balances.

Table FP-W1A

Projected Water Fund Revenue Requirements (with Level Rate Increases of 2%/year)

City of Morgan Hill

Water Fund Expenses	FY'01-02	FY'02-03	Water Financial Plan - Projected Revenue Req'ts. (b)			
	Est. Actual (a)	Current Plan	FY'03-04	FY'04-05	FY'05-06	FY'06-07
Water Operations						
Employee Services	\$864,807	\$950,991	\$1,036,200	\$1,067,200	\$1,099,200	\$1,132,200
Supplies & Services (Excl. Water Purchases)	1,338,095	1,652,130	1,675,000	1,725,300	1,776,900	1,830,300
Capital Outlay	73,760	64,275	106,200	68,200	70,200	72,200
Debt Service	554,481	551,372	551,300	551,300	551,300	551,300
Subtotal - Water Operations	\$2,831,143	\$3,218,768	\$3,368,700	\$3,412,000	\$3,497,600	\$3,586,000
Meter Reading/Reporting						
Personnel	229,987	216,278	222,600	229,200	236,100	243,100
Supplies & Services	47,087	81,260	83,700	85,900	88,300	90,800
Capital Outlay	174,446 ^c	319,340	329,000	338,800	349,000	359,400
Subtotal - Meter Reading	451,520	616,878	635,300	653,900	673,400	693,300
Utility Billing	300,053	347,753	358,000	368,600	379,700	390,900
Water Conservation	13,048	11,320	11,600	11,900	12,200	12,500
Total - Water Operations (w/o Water Purchases)	3,595,764	4,194,719	4,373,600	4,446,400	4,562,900	4,682,700
Water Purchases (Pump Tax)	1,005,316	1,115,847	1,217,000	1,279,000	1,343,000	1,411,000
Total - Water Operations (with Water Purchases)	4,601,080	5,310,566	5,590,600	5,725,400	5,905,900	6,093,700
Transfers Out To/(In From)						
Internal Service (45000)	264,808	317,299	326,800	336,600	346,700	357,100
Water Impact Fund (651)	0	1,335,000	0	(471,963)	(471,963)	(471,963)
Rate Stabil. Fund (652)	0	0	50,000	50,000	50,000	50,000
Capital Projects Fund (653)	1,450,000	1,200,000	675,000	675,000	675,000	675,000
Other (202, 720)	365,000	417,500	430,000	442,900	456,200	469,900
Subtotal - Transfers	2,079,808	3,269,799	1,481,800	1,032,537	1,055,937	1,080,037
Total - Operations & Transfers	6,680,888	8,580,365	7,072,400	6,757,937	6,961,837	7,173,737
less Misc. Non-Rate Revenue ^e	(\$356,495)	(\$401,347)	(\$419,500)	(\$427,700)	(\$436,100)	(\$444,700)
Net Revenue Requirements	\$6,324,393	\$8,179,018	\$6,652,900	\$6,330,237	\$6,525,737	\$6,729,037
Annual Change in Revenue Requirements		29.3%	-18.7%	-4.8%	3.1%	3.1%

a. From Appendix Table BP-W1, Water Operations - Summary of Budget Projections.

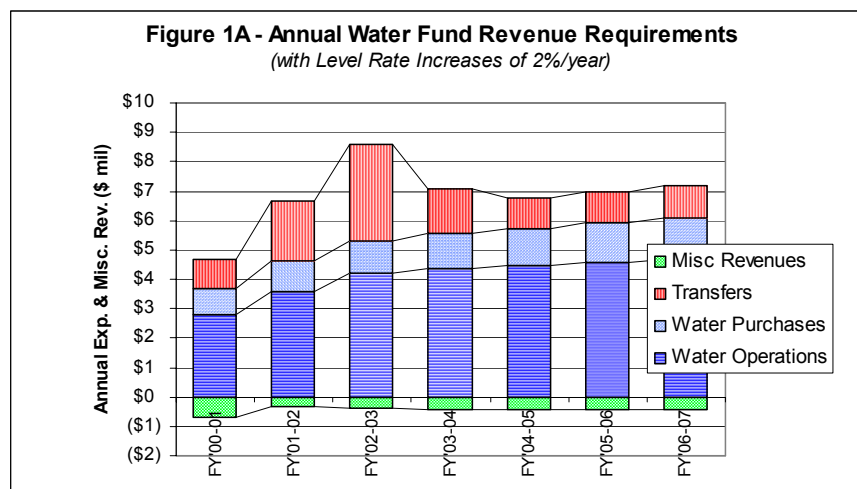
b. Projected using Adopted FY'02-03 budget and the inflation rates and City staff adjustments shown in Appendix Table BP-W1.

c. Includes "Debt Service" and "Int. Ser. & Transfers".

d. Transfers shown in Table FP-W1B.

e. Includes use of money and property, reimbursement of expenses, meter installations, delinquent charges, and other misc. current service charges.

This table indicates that net revenue requirements in FY 02-03 are almost 30% higher than the previous year, primarily due to significantly larger capital project-related transfers. There are small annual transfers from operations to the Rate Stabilization Fund (652) beginning in FY 03-04 for the purpose of maintaining the reserve target level of Fund 652. As shown in Figure 1A, the various categories of revenue requirements have steady increases in FY 03-04 and thereafter with the exception of capital-related transfers, which grew dramatically in FY 02-03 but return to more normal levels in FY 03-04.



Potential Rate Increases

There are a number of ways the City could meet these revenue requirements. We have provided an example of a commonly used approach for illustrative purposes: level rate increases sufficient to meet the requirements over the study period.

Table FP-W1C

Water Rate Increases Alternative (with Level Rate Increases of 2%/year)

City of Morgan Hill

	FY'01-02	FY'02-03	Water Financial Plan - Rate Increase Alternative				
	Est. Actual (b)	Current Plan	FY'03-04	FY'04-05	FY'05-06	FY'06-07	
Net Revenue Requirements (a)	\$6,324,393	\$8,179,018	\$6,652,900	\$6,330,237	\$6,525,737	\$6,729,037	
Revenue from Rates							
Revenue from Current Rates (c)	\$5,991,000	\$5,855,915	\$5,973,000	\$6,092,000	\$6,214,000	\$6,338,000	
Revenue from previous years' rate increases	\$0	\$0	\$119,460	\$246,117	\$380,347	\$522,455	
Subtotal	\$ 5,991,000	\$ 5,855,915	\$ 6,092,460	\$ 6,338,117	\$ 6,594,347	\$ 6,860,455	
Current Year Surplus/(Deficit) (d)	\$ (333,393)	\$ (2,323,103)	\$ (560,440)	\$ 7,880	\$ 68,610	\$ 131,418	
Surplus/(Deficit) (No Rate Increases)		(\$2,323,103)	(\$679,900)	(\$238,237)	(\$311,737)	(\$391,037)	
Rate Increase Alternative			2.0%	2.0%	2.0%	2.0%	
Cumulative Rate Increase			2.0%	4.0%	6.1%	8.2%	10.4%
REVENUE FROM RATE INCREASES (e)							
Effective March 1, 2002		\$29,280	\$119,460	\$121,840	\$124,280	\$126,760	
Effective July 1, 2003			\$121,849	\$124,277	\$126,766	\$129,295	
Effective July 1, 2004				\$126,762	\$129,301	\$131,881	
Effective July 1, 2005					\$131,887	\$134,519	
Effective July 1, 2006						\$137,209	
Subtotal - Revenue from Rate Increases	\$ -	\$ 29,280	\$ 241,309	\$ 372,879	\$ 512,233	\$ 659,664	
Total Rate Revenue	\$ 5,991,000	\$ 5,885,195	\$ 6,214,309	\$ 6,464,879	\$ 6,726,233	\$ 6,997,664	
Annual Surplus/(Deficit) after Rate Increase f	\$ (333,393)	(\$2,293,823)	(\$438,591)	\$134,642	\$200,496	\$268,627	

a. From Table FP-W1A.

b. Approximate rate increase needed to meet Net Revenue Requirements. Calculated in conjunction with the reserve contributions shown in Table FP-W1B.

c. Based on 01/02 Proposed Budget, from Budget Revenue Summary, Fund 650 Water, plus an assumed growth rate of 2% from the Morgan Hill General Plan, Comm. Dev., p.25, July 2001.

d. Before current year rate increase.

Assumed Growth Rate = 2.00%

e. Rate revenue from the rate increase shown and assuming the adopted date below.

f. Transferred to Fund 650 Working Capital.

Projected Reserve Contributions and Balances

The City maintains four reserve funds in the water fund:

- Water Operations Fund (650)
- Water Impact Fund (651)
- Water Rate Stabilization Fund (652)
- Water Capital Projects Fund (653)

The flow of money between these funds and their ending balances are important aspects of the water fund's financial management, and are shown in Table FP-W1B over the next 5 years.

This table also summarizes two cases for the Water Operations Reserve Fund (650): (1) no rate increases, and (2) 2% rate increases. This second case is discussed more in Section IV. These reserve funds accumulate the beginning balances, plus any operating surplus or deficit (e.g., rate revenue less revenue requirements), plus interest earned in the fund during the year. In the Water Impact Fund (651), we have included additional revenue bond proceeds of \$1.5 million, which is necessary to avoid year-end deficits in this fund.

Table FP-W1B

Projected Reserve Contributions and Balances (with Level Rate Increases of 2%/year)

City of Morgan Hill

	FY'01-02		FY'02-03	Water Financial Plan - Transfers and Reserve Balances			
	Est.	Actual (a)	Current Plan	FY'03-04	FY'04-05	FY'05-06	FY'06-07
Water Operations Reserve Fund (650)							
<i>Fund Balance Without Rate Increases</i>							
Beginning Fund Balance		\$3,480,150 <i>b</i>	\$3,373,757	\$1,253,450	\$596,492	\$372,585	\$63,282
Annual Surplus/(Deficit)		(\$333,393)	(\$2,323,103)	(\$679,900)	(\$238,237)	(\$311,737)	(\$391,037)
Interest Income		<u>\$227,000</u>	<u>\$202,796</u>	<u>\$22,942</u>	<u>\$14,330</u>	<u>\$2,434</u>	<u>\$0</u>
Ending Fund Balance (650) (<i>Without Rate Incr.</i>)		\$3,373,757	\$1,253,450	\$596,492	\$372,585	\$63,282	(\$327,755)
<i>Fund Balance With Rate Increases</i>							
		Rate Increases:	2.0%	2.0%	2.0%	2.0%	2.0%
Beginning Fund Balance		\$3,480,150	\$3,373,757	\$1,282,730	\$877,904	\$1,053,048	\$1,303,687
Annual Surplus/(Deficit)		(\$333,393)	(\$2,293,823)	(\$438,591)	\$134,642	\$200,496	\$268,627
Interest Income		<u>\$227,000</u>	<u>\$202,796</u>	<u>\$33,766</u>	<u>\$40,502</u>	<u>\$50,142</u>	<u>\$62,893</u>
Ending Fund Balance (650) (<i>With Rate Incr.</i>)		\$3,373,757	\$1,282,730	\$877,904	\$1,053,048	\$1,303,687	\$1,635,206
Minimum Target Ending Balance (25% of Oper. Budget)		\$1,670,000	\$2,145,000	\$1,768,000	\$1,689,000	\$1,740,000	\$1,793,000
Water Rate Stabilization Fund (652)							
Beginning Fund Balance		\$797,457 <i>b</i>	\$838,989	\$871,833	\$958,833	\$1,048,833	\$1,142,833
Interest Income		\$42,000	\$32,844	\$37,000	\$40,000	\$44,000	\$48,000
Internal Services		(\$468)	\$0	\$0	\$0	\$0	\$0
<i>Transfer In from (Out to) Operations (650)</i>		<u>\$0</u>	<u>\$0</u>	<u>\$50,000</u>	<u>\$50,000</u>	<u>\$50,000</u>	<u>\$50,000</u>
Ending Fund Balance		\$838,989	\$871,833	\$958,833	\$1,048,833	\$1,142,833	\$1,240,833
Target Ending Balance (20% of Water Sales) <i>f</i>		\$1,200,000	\$1,200,000	\$1,200,000	\$1,200,000	\$1,200,000	\$1,300,000
Water Capital Projects Fund (653)							
Beginning Fund Balance	<i>g</i>	\$3,648,853 <i>b</i>	\$3,972,472	\$1,157,482	\$1,006,482	\$1,447,482	\$1,307,482
Interest Earnings		\$29,000	\$7,662	\$39,000	\$56,000	\$50,000	\$68,000
Use of Money & Property		\$0	\$0	\$0	\$0	\$0	\$0
Re-Budgeted Capital Projects		\$0	(\$3,211,697)	\$0	\$0	\$0	\$0
Transfer In/(Out) Cap Proj. (Cur. Users)		(\$1,155,381)	(\$810,955)	(\$865,000)	(\$290,000)	(\$865,000)	(\$290,000)
<i>Transfer in from(out to) Operations (650)</i>	<i>e</i>	<u>\$1,450,000</u>	<u>\$1,200,000</u>	<u>\$675,000</u>	<u>\$675,000</u>	<u>\$675,000</u>	<u>\$675,000</u>
Ending Fund Balance		\$3,972,472	\$1,157,482	\$1,006,482	\$1,447,482	\$1,307,482	\$1,760,482
Target Ending Balance (Highest Annual CIP) <i>h</i>		\$1,500,000	\$1,545,000	\$1,591,000	\$1,639,000	\$1,688,000	\$1,739,000
Total Water Reserves (650, 652, 653) - Ending Balances							
Total Reserves (<i>Without</i> Rate Increases)		\$8,185,218	\$3,282,765	\$2,561,807	\$2,868,900	\$2,513,597	\$2,673,560
Total Reserves (<i>With</i> Rate Increases)		\$8,185,218	\$3,312,045	\$2,843,219	\$3,549,363	\$3,754,002	\$4,636,521
Total Target Reserves (650, 652, 653)		\$4,370,000	\$4,890,000	\$4,559,000	\$4,528,000	\$4,628,000	\$4,832,000
Water Impact Fund (651)							
Beginning Fund Balance		\$1,488,429 <i>b</i>	\$552,468	\$17,563	\$362,563	\$1,774,600	\$1,061,637
Interest Income		\$39,000	\$17,102	\$14,000	\$68,000	\$41,000	\$33,000
Impact Fees Received	<i>d</i>	\$204,000	\$407,468	\$376,000	\$436,000	\$478,000	\$502,000
Net Proceeds from New Revenue Bonds					\$1,500,000		
Repayment of New Revenue Bonds						(\$140,000)	(\$140,000)
Re-Budgeted Capital Projects		\$0	(\$1,394,241)	\$0	\$0	\$0	\$0
<i>Transfer In From (Out To) Operations (650)</i>		\$0	\$1,335,000	\$0	\$0	\$0	\$0
<i>Repayment of Transfer From Operations (650)</i>			\$0		(\$471,963)	(\$471,963)	(\$471,963)
Well Construction Refund (One-time)			\$0	\$700,000	\$0	\$0	\$0
Transfer (Out) - Water CIP (Future Users)	<i>e</i>	(\$1,178,961)	(\$900,234)	(\$745,000)	(\$120,000)	(\$620,000)	(\$120,000)
Ending Fund Balance		\$552,468	\$17,563	\$362,563	\$1,774,600	\$1,061,637	\$864,674
Minimum Target Ending Balance (Ave. of CIP)		\$660,000	\$680,000	\$700,000	\$720,000	\$740,000	\$760,000
Balance Owed on Transfer From Operations (650)				\$1,375,050	\$930,180	\$471,963	\$0

Note: Transfers in **Bold Italic Font** are manual adjustments.

a. FY'01-02 is based on the City's 01/02 Proposed Budget, Fund 650 Water.

b. From City Finance Department records, fax from Jack Dilles, 10/1/02.

c. Determined in Water Rate Stabilization Fund (652) and Water Capital Projects Fund (653) below.

d. FY'01-02 and FY 02-03 are from current budget. After FY 02-03, revenues reflect new Impact Fees from Resolution 5592 as shown in Table CF-3.

e. From Table FP-W4, Summary of 5-Year CIP Water Projects. Funding sources in this table cover capital project costs from either Fund 651 or 653. FY 01-02 and 02-03 are budget numbers.

f. 20% of water sales to reflect a severe 1-year drought, rounded to nearest \$100,000.

g. On 6/30/01, the Water System Replacement Fund 655 was combined into the Water Capital Projects Funds 653. Source: City Finance Dept records, 10/1/02.

h. Target ending balance is the 5-year average CIP project costs for current users, from Table FP-W4.

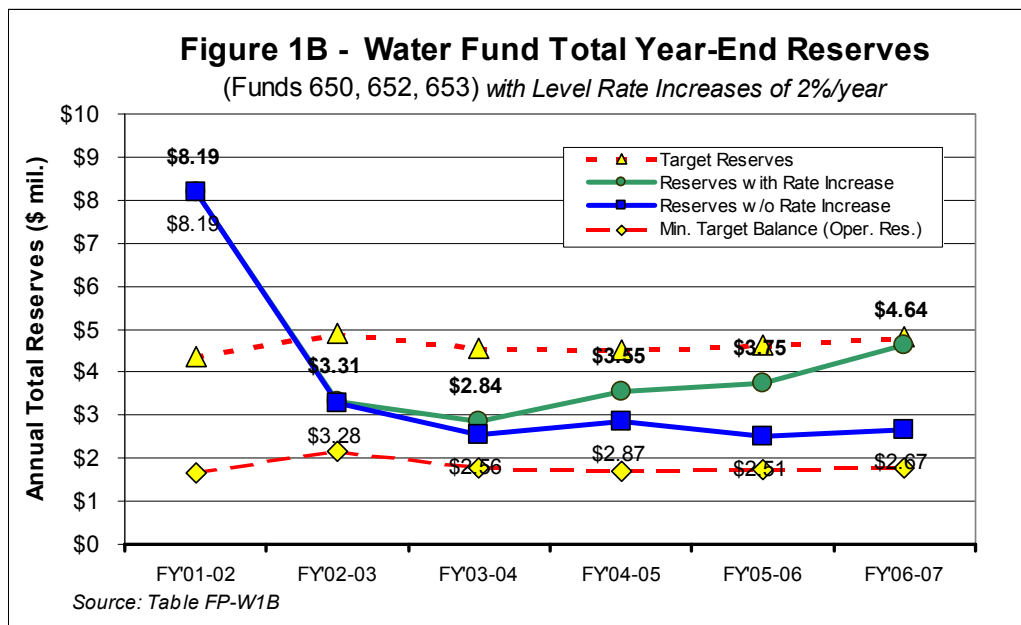
Target ending balances shown in this table for funds 650, 651, 652 and 653 are:

- Water Operations Fund (650) - The minimum target year-end balance is intended to provide the minimum advisable ending balance for a working capital reserve. Therefore, we have suggested a balance of 25% of the total operating budget, or three months of operating expenses.

- Water Rate Stabilization Fund (652) - The target balance is 20% of the annual water sales, and is intended to cover a 20% decline in water use due to a one-year drought.
- Water Impact Fund (651) and Water Capital Projects Fund (653) - The target balances for these funds are the 5-year average of the capital project costs in each.

As shown in Table FP-W1B, without the 2% rate increases, the operating fund's ending balance declines over the period, although it would still be adequate if used solely as a working capital reserve. We consider the target operations fund balance to be the minimum for the City's total reserves. Therefore, the City should carefully monitor these reserves over the next few years, particularly with regard to the need for additional revenue bonds in the Water Impact Fund (651) and the Water Capital Projects Fund (653).

Figure 1B illustrates the total reserve fund balances with and without the 2% rate increase compared to the target and minimum balances. The Water Impact Fund (651), which should be kept separate from non-impact fee funds, is not included in this total.



SEWER FINANCIAL PLAN

A similar financial plan was prepared for the Sewer Fund, and is outlined below.

Revenue Requirements

The projected revenue requirements for the Sewer Fund (640) are presented in Table FP-S1 and Figure 2, and indicate that FY 02-03 revenue requirements are about 4% higher than the previous year. The annual changes in revenue requirements are in the 1% to 5% range thereafter.

Table FP-S1

Projected Sewer Utility Revenue Requirements

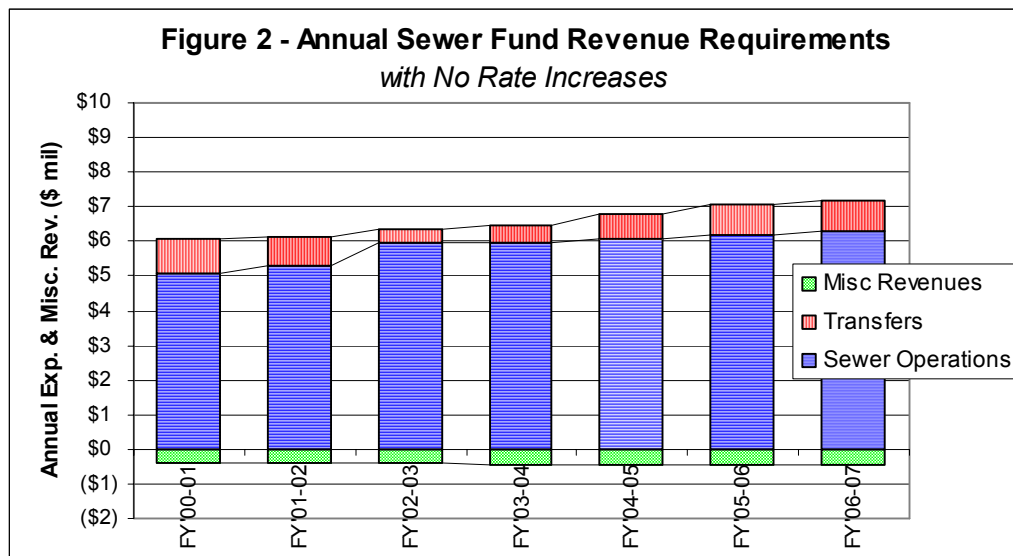
City of Morgan Hill

	YTD Expenses FY01-02 (b)	Adopted Budget FY02-03	Sewer Financial Plan - Projected Expenses and Revenues			
			Projection FY03-04	Projection FY04-05	Projection FY05-06	Projection FY06-07
Operating Expenses (a)						
Employee Services	\$794,628	\$887,520	\$970,800	\$999,900	\$1,029,900	\$1,060,900
Supplies & Services	2,536,052	2,701,686	2,782,800	2,866,300	2,952,200	3,040,700
Capital Outlay	45,567	49,725	91,200	52,800	54,400	56,000
Debt Service	1,637,946	2,069,674	1,840,688	1,842,546	1,843,146	1,843,346
Internal Services	231,586	275,252	283,500	292,000	300,700	309,700
Encumbrances	51,855	0	0	0	0	0
Subtotal - Operating	\$5,297,634	\$5,983,857	\$5,968,988	\$6,053,546	\$6,180,346	\$6,310,646
Transfers To/(From) (c)						
Transfer-Street	\$160,000	\$200,000	\$206,000	\$212,200	\$218,600	\$225,200
Transfer-GF Fund	15,000	17,500	18,000	18,500	19,100	19,700
Transfer - Sewer Rate Stabilization Fund 642	0	(500,000)	(400,000)	(400,000)	(300,000)	(300,000)
Transfer-Sewer Replacement Fund 643	500,000	500,000	500,000	750,000	750,000	750,000
Transfer-Water Operations Fund 650	175,543	173,877	179,100	184,500	190,000	195,700
Subtotal - Transfers	<u>\$850,543</u>	<u>\$391,377</u>	<u>\$503,100</u>	<u>\$765,200</u>	<u>\$877,700</u>	<u>\$890,600</u>
Total Revenue Requirement	\$6,148,177	\$6,375,234	\$6,472,088	\$6,818,746	\$7,058,046	\$7,201,246
less Other (Non-Rate) Revenues	(\$417,402)	(\$422,000)	(\$434,000)	(\$446,000)	(\$459,000)	(\$473,000)
Net Revenue Requirements	\$5,730,775	\$5,953,234	\$6,038,088	\$6,372,746	\$6,599,046	\$6,728,246
<i>Annual Change in Revenue Requirements</i>		3.9%	1.4%	5.5%	3.6%	2.0%

a. From App. Table BP-S1, Sewer Operations - Summary of Budget Projections, projections based on assumed inflation rates.

b. From App. Table BP-S1, Sewer Operations - Summary of Budget Projections.

c. From Table BP-S1 except Fund 642 and 643 which are from Table FP-S3.



Potential Rate Increases

As noted earlier, the Sewer Fund does not appear to need rate increases to maintain its reserve fund target balances during the study period. Table FP-S2 shows the projected rate revenue compared to revenue requirements and resulting net annual surplus/deficit. These surplus/deficits are carried forward and accounted for in the Sewer Operating Reserve Fund (640).

Table FP-S2

Sewer Rate Increases Alternative City of Morgan Hill

	Est. Actual FY '01-02	Adopted Budget FY'02-03	Projected Rev. Req'ts. and Rate Revenue			
		FY'03-04	FY'04-05	FY'05-06	FY'06-07	
Net Revenue Requirements (From Table FP-S1)	\$5,730,775	\$ 5,953,234	\$ 6,038,088	\$ 6,372,746	\$ 6,599,046	\$ 6,728,246
Revenue from Rates						
Revenue from Current Rates (a)	\$5,427,323	\$5,389,650	\$5,497,000	\$5,607,000	\$5,719,000	\$5,833,000
Revenue from previous years' rate increase	\$0	\$0	\$0	\$0	\$0	\$0
Subtotal	\$5,427,323	\$5,389,650	\$5,497,000	\$5,607,000	\$5,719,000	\$5,833,000
Surplus/(Deficit) before rate increase	(\$303,452)	(\$563,584)	(\$541,088)	(\$765,746)	(\$880,046)	(\$895,246)
Surplus/(Deficit) (No Rate Increases)	(\$303,452)	(\$563,584)	(\$541,088)	(\$765,746)	(\$880,046)	(\$895,246)
Rate Increase Alternative		0.0%	0.0%	0.0%	0.0%	0.0%
Cumulative Rate Increase		0.0%	0.0%	0.0%	0.0%	0.0%
REVENUE FROM RATE INCREASES (b)						
Effective July 1 of each year: FY 02-03		\$0	\$0	\$0	\$0	\$0
FY 03-04			0	0	0	0
FY 04-05				0	0	0
FY 05-06					0	0
FY 06-07						0
Subtotal - Revenue from Rate Increases	\$0	\$0	\$0	\$0	\$0	\$0
Total Rate Revenue	\$5,427,323	\$5,389,650	\$5,497,000	\$5,607,000	\$5,719,000	\$5,833,000
Annual Surplus/(Deficit) after Rate Increase	(\$303,452)	(\$563,584)	(\$541,088)	(\$765,746)	(\$880,046)	(\$895,246)

a. FY01-02 is from Jack Dilles, email to HF&H 5/14/02. Projections include a growth rate of 2% from the Morgan Hill General Plan, Comm. Devel., p.25, July 2001.

b. Rate revenue from the rate increase alternative in the current year.

Projected Reserve Contributions and Balances

The City maintains four reserve funds in the Sewer Fund:

- Sewer Operations Fund (640)
- Sewer Impact Fund (641)
- Sewer Rate Stabilization Fund (642)
- Sewer Capital Projects Fund (643)

The projected transfers between funds and the year-end balances over the next 4 years are shown in Table FP-S3. As with the Water Operations Reserve Fund, the Sewer Operating Reserve accumulates the beginning-year balance of Fund 640, plus any operating surplus or deficit (i.e., rate revenue less revenue requirements), plus interest earned in the fund during the year. This table shows a transfer from the rate stabilization fund to sewer operations due to excess funds that were accumulating in the rate stabilization fund. This transfer also helps avoid rate increases.

The year-end totals of the various Sewer Fund reserves exceed their target balances in almost every year. However, this assumes the City issues \$8 million in revenue bonds in FY 04-05, as shown in the City's 5 year Capital Improvements Program, to supplement the sewer impact fund (641).

As with the water fund, we have proposed target year-end balances for Sewer Funds 640, 642 and 643. These include:

- Operating Fund (640) - minimum balance of 25% of the operating budget.
- Rate Stabilization Fund (642) - minimum balance of 20% of the annual water sales, intended to cover a 20% decline in water use due to a one-year drought.
- Sewer Impact and Capital Projects Funds (641 and 643) - target is equal to the average of the capital project expenditures for future and current users, respectively.

Table FP-S3

Summary of Projected Sewer Reserve Contributions and Balances

City of Morgan Hill

	Est. Actual FY '01-02 (a)	Adopted Budget FY'02-03	Water Financial Plan - Transfers & Reserve Balances			
			FY'03-04	FY'04-05	FY'05-06	FY'06-07
Sewer Operations Fund (640)						
<i>Fund Balance Without Rate Increases</i>						
Beginning Fund Balance	\$5,564,044	\$5,260,592	\$4,697,008	\$4,155,921	\$3,390,175	\$2,510,129
Annual Surplus/(Deficit)	<u>(303,452)</u>	<u>(563,584)</u>	<u>(541,088)</u>	<u>(765,746)</u>	<u>(880,046)</u>	<u>(895,246)</u>
Ending Balance (640) (Without Rate Incr.)	\$5,260,592	\$4,697,008	\$4,155,921	\$3,390,175	\$2,510,129	\$1,614,884
Minimum Target Balance (25% of Oper. Budget)	\$1,324,000	\$1,496,000	\$1,492,000	\$1,513,000	\$1,545,000	\$1,578,000
Sewer Rate Stabilization Fund (642)						
Beginning Balance	\$3,061,482	\$3,469,485	\$3,392,863	\$3,421,863	\$3,460,863	\$3,614,863
Reimbursement of Expenses (SCRWA)	\$312,609	300,000	309,000	318,000	328,000	338,000
Interest Income (d)	97,386	123,378	120,000	121,000	126,000	133,000
Other Costs	(1,992)	0	0	0	0	0
Transfers to Operations (640)	<u>0</u>	<u>(500,000)</u>	<u>(400,000)</u>	<u>(400,000)</u>	<u>(300,000)</u>	<u>(300,000)</u>
Ending Balance	\$3,469,485	\$3,392,863	\$3,421,863	\$3,460,863	\$3,614,863	\$3,785,863
Target Balance (20% of Sewer Rate Rev.) (e)	\$1,100,000	\$1,100,000	\$1,100,000	\$1,100,000	\$1,100,000	\$1,200,000
Sewer Capital Projects Fund (643) (f)						
Beginning Balance	\$3,450,429	\$3,386,172	\$1,112,489	\$293,489	\$357,489	\$423,489
Interest Income (d)	117,971	108,421	11,000	14,000	16,000	19,000
Transfer to Capital Projects (Current Users)	(682,228)	(1,820,000)	(1,330,000)	(700,000)	(700,000)	(700,000)
Re-Budgeted Capital Projects (g)	0	(1,062,104)	0	0	0	0
Add'l. Transfer In from Oper. Fund	<u>500,000</u>	<u>500,000</u>	<u>500,000</u>	<u>750,000</u>	<u>750,000</u>	<u>750,000</u>
Ending Balance	\$3,386,172	\$1,112,489	\$293,489	\$357,489	\$423,489	\$492,489
Target Balance (Ave. of CIP Transfers Out) (h)	\$990,000	\$1,020,000	\$1,051,000	\$1,083,000	\$1,115,000	\$1,148,000
Total Sewer Reserves (640, 642, 643) - Ending Balances						
Total Reserves (Without Rate Increases)	\$12,116,249	\$9,202,360	\$7,871,273	\$7,208,527	\$6,548,481	\$5,893,236
Total Target Reserves (640, 642, 643)	\$6,764,000	\$3,616,000	\$3,643,000	\$3,696,000	\$3,760,000	\$3,926,000
Sewer Impact Fund (641)						
Beginning Balance	\$6,820,277	\$5,574,881	\$2,873,768	\$1,644,768	\$11,270,768	\$11,629,768
Interest Income (d)	189,744	176,887	63,000	126,000	477,000	184,000
New Revenue Bond Proceeds (i)	0	0	0	8,000,000	0	0
Debt Service on New Revenue Bonds (i)	0	0	0	0	(770,000)	(770,000)
Impact Fees Received	1,250,000	1,125,000	1,730,000	1,985,000	2,170,000	1,368,000
Transfer (Out) - Sewer CIP (Future Users)	<u>(2,685,140)</u>	<u>(4,003,000)</u>	<u>(3,022,000)</u>	<u>(485,000)</u>	<u>(1,518,000)</u>	<u>(8,386,000)</u>
Ending Balance	\$5,574,881	\$2,873,768	\$1,644,768	\$11,270,768	\$11,629,768	\$4,025,768
Target Balance (Ave. of CIP Transfers Out)	\$3,350,000	\$3,450,000	\$3,550,000	\$3,660,000	\$3,770,000	\$3,880,000

Note: Transfers in **Bold Italics Font** are manual adjustments.

a. FY'01-02 is from Estimated Actual Budget shown in Adopted FY'02-03 Budget.

b. FY01-02 beginning year balances are set to yield the ending balances provided by Finance Department, 10/1/02.

c. FY '01-02 and '02-03 impact fees are from the Adopted FY 02-03 Budget. After FY 02-03, projections from Table CF-3 are used.

d. Interest earnings on current year funds assuming a 4% interest rate.

e. 20% of Sewer service charges from total rate revenue in Table FP-S2, rounded to nearest \$100,000.

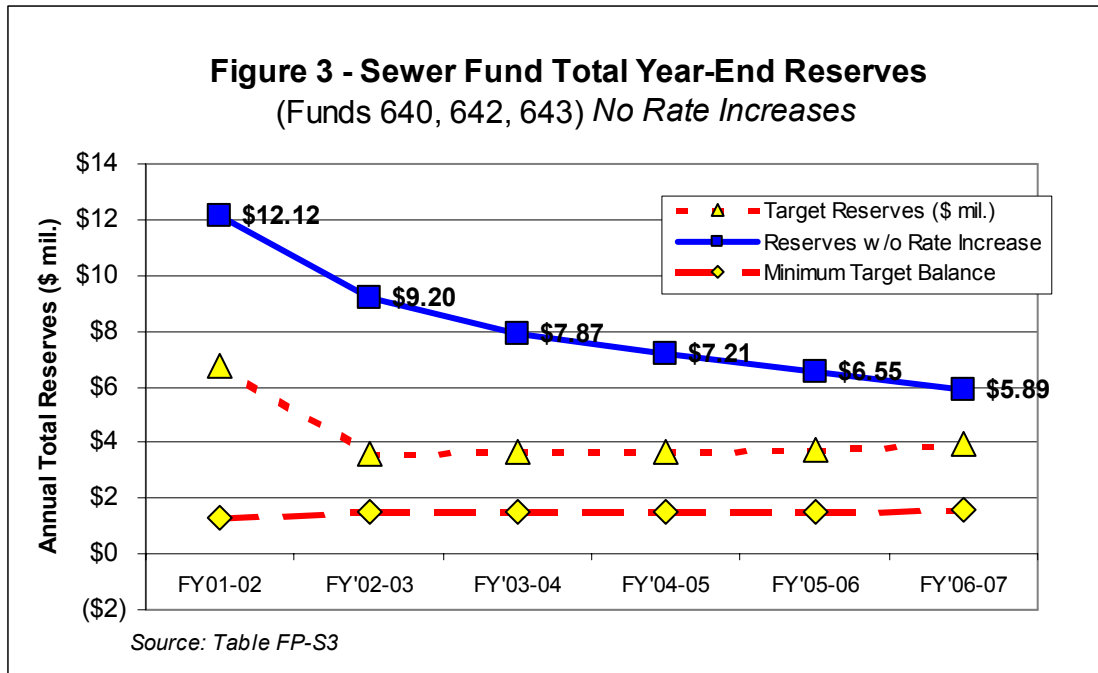
f. On 6/30/01, the Sewer System Replacement Fund 645 was combined into the Sewer Capital Projects Fund 643.

g. Projects planned for previous construction but now re-allocated to construction in '02-03. From Jack Dilles, 10/2/02.

h. Target ending balance is the 6-year average CIP project costs for current or future users, from Table FP-S4.

i. New revenue bond shown is from the City CIP dated 7-18-02. Debt service assumes 6% interest rate, 20 yr repayment, 10% issuance and reserve costs.

This table shows that without rate increases, the year-end balance of the total sewer reserves (funds 640, 642, and 643) decline from \$12.1 million to \$5.9 million, which is still well above the target reserve level of \$3.9 million. These changes in year-end total reserves are shown in Figure 3 below.



IV. RATE ALTERNATIVES TO MEET REVENUE REQUIREMENTS

The projected revenue requirements provide important information for the City to consider in developing its financial plans over the next several years. Included in these plans are the potential adjustments the City may need to make in its water and sewer rates.

Although it appears no rate increases will be needed in the Sewer Fund, the Water Fund will require additional revenue to meet the revenue requirements, including about \$1.5 million in additional debt in the Water Impact Fund (651). However, this section is not intended to provide a detailed review of alternative water rate increases. Instead, we have provided a brief overview of some alternative approaches to meeting water revenue requirements:

Alternative 1 - Level rate increases each year starting in FY 02-03,

Alternative 2 - A one-time rate increase in FY 02-03, and

Alternative 3 - Additional debt only and no rate increases.

The rate increases in the first two alternatives assume that an FY 02-03 rate increase would take effect April 1, 2003. This means there will only be additional rate revenue for the last quarter of the fiscal year. However, the higher rates will produce additional rate revenue throughout the remainder of the period.

The following is a comparison of the impacts that these three alternative rate and funding scenarios would have on annual rate revenue and the year-end balances of the water reserve funds.

ALTERNATIVE 1 – LEVEL WATER RATE INCREASES

This first alternative has level rate increases of 2%/year beginning in FY 02-03. This is the same financial plan previously shown in Section III. For purposes of comparing this alternative with Alternatives 2 and 3, the information will be presented again here.

The characteristics of this plan are that it avoids the rate-shock that can accompany large, one-time increases, and instead provides smaller annual increases that minimize the changes in customer bills.

Table FP-W1A outlines the results of increasing the water rates by 2% each year beginning in FY 02-03. Figure 1A shows the resulting reserve fund balances.

Table FP-W1A

Projected Water Fund Revenue Requirements (with Level Rate Increases of 2%/year)

City of Morgan Hill

Water Fund Expenses	FY'01-02	FY'02-03	Water Financial Plan - Projected Revenue Req'ts. (b)			
	Est. Actual (a)	Current Plan	FY'03-04	FY'04-05	FY'05-06	FY'06-07
Water Operations						
Employee Services	\$864,807	\$950,991	\$1,036,200	\$1,067,200	\$1,099,200	\$1,132,200
Supplies & Services (Excl. Water Purchases)	1,338,095	1,652,130	1,675,000	1,725,300	1,776,900	1,830,300
Capital Outlay	73,760	64,275	106,200	68,200	70,200	72,200
Debt Service	554,481	551,372	551,300	551,300	551,300	551,300
Subtotal - Water Operations	\$2,831,143	\$3,218,768	\$3,368,700	\$3,412,000	\$3,497,600	\$3,586,000
Meter Reading/Reporting						
Personnel	229,987	216,278	222,600	229,200	236,100	243,100
Supplies & Services	47,087	81,260	83,700	85,900	88,300	90,800
Capital Outlay	174,446 ^c	319,340	329,000	338,800	349,000	359,400
Subtotal - Meter Reading	451,520	616,878	635,300	653,900	673,400	693,300
Utility Billing	300,053	347,753	358,000	368,600	379,700	390,900
Water Conservation	13,048	11,320	11,600	11,900	12,200	12,500
Total - Water Operations (w/o Water Purchases)	3,595,764	4,194,719	4,373,600	4,446,400	4,562,900	4,682,700
Water Purchases (Pump Tax)	1,005,316	1,115,847	1,217,000	1,279,000	1,343,000	1,411,000
Total - Water Operations (with Water Purchases)	4,601,080	5,310,566	5,590,600	5,725,400	5,905,900	6,093,700
Transfers Out To/(In From) ^d						
Internal Service (45000)	264,808	317,299	326,800	336,600	346,700	357,100
Water Impact Fund (651)	0	1,335,000	0	(471,963)	(471,963)	(471,963)
Rate Stabil. Fund (652)	0	0	50,000	50,000	50,000	50,000
Capital Projects Fund (653)	1,450,000	1,200,000	675,000	675,000	675,000	675,000
Other (202, 720)	365,000	417,500	430,000	442,900	456,200	469,900
Subtotal - Transfers	2,079,808	3,269,799	1,481,800	1,032,537	1,055,937	1,080,037
Total - Operations & Transfers	6,680,888	8,580,365	7,072,400	6,757,937	6,961,837	7,173,737
less Misc. Non-Rate Revenue ^e	(\$356,495)	(\$401,347)	(\$419,500)	(\$427,700)	(\$436,100)	(\$444,700)
Net Revenue Requirements	\$6,324,393	\$8,179,018	\$6,652,900	\$6,330,237	\$6,525,737	\$6,729,037
Annual Change in Revenue Requirements		29.3%	-18.7%	-4.8%	3.1%	3.1%

a. From Appendix Table BP-W1, Water Operations - Summary of Budget Projections.

b. Projected using Adopted FY'02-03 budget and the inflation rates and City staff adjustments shown in Appendix Table BP-W1.

c. Includes "Debt Service" and "Int. Ser. & Transfers".

d. Transfers shown in Table FP-W1B.

e. Includes use of money and property, reimbursement of expenses, meter installations, delinquent charges, and other misc. current service charges.

Figure 1A - Annual Water Fund Revenue Requirements
(with Level Rate Increases of 2%/year)

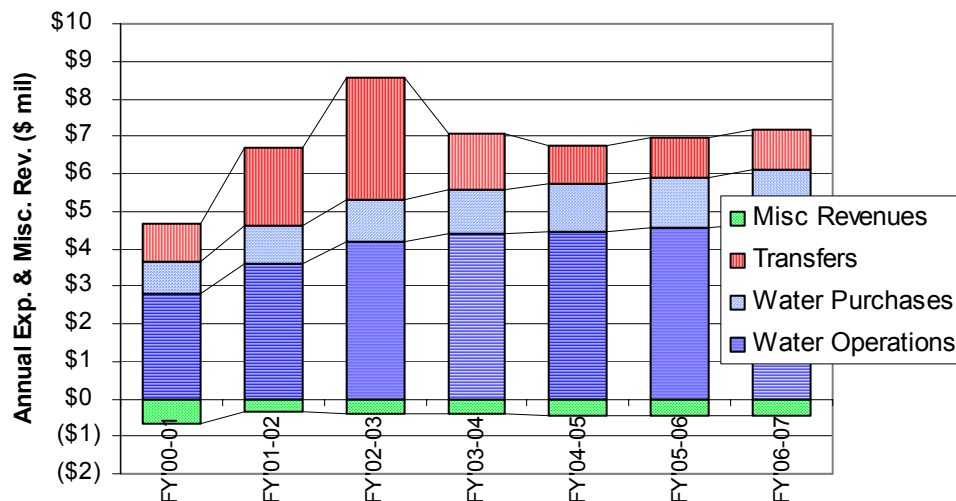


Table FP-W1C summarizes the additional rate revenue generated by these 2% rate increases, along with the annual surplus/deficits.

Table FP-W1C

Water Rate Increases Alternative (with Level Rate Increases of 2%/year)

City of Morgan Hill

	FY'01-02	FY'02-03	Water Financial Plan - Rate Increase Alternative			
	Est. Actual (b)	Current Plan	FY'03-04	FY'04-05	FY'05-06	FY'06-07
Net Revenue Requirements (a)	\$6,324,393	\$8,179,018	\$6,652,900	\$6,330,237	\$6,525,737	\$6,729,037
Revenue from Rates						
Revenue from Current Rates (c)	\$5,991,000	\$5,855,915	\$5,973,000	\$6,092,000	\$6,214,000	\$6,338,000
Revenue from previous years' rate increases	\$0	\$0	\$119,460	\$246,117	\$380,347	\$522,455
Subtotal	\$ 5,991,000	\$ 5,855,915	\$ 6,092,460	\$ 6,338,117	\$ 6,594,347	\$ 6,860,455
Current Year Surplus/(Deficit) (d)	\$ (333,393)	\$ (2,323,103)	\$ (560,440)	\$ 7,880	\$ 68,610	\$ 131,418
Surplus/(Deficit) (No Rate Increases)		(\$2,323,103)	(\$679,900)	(\$238,237)	(\$311,737)	(\$391,037)
Rate Increase Alternative		2.0%	2.0%	2.0%	2.0%	2.0%
Cumulative Rate Increase		2.0%	4.0%	6.1%	8.2%	10.4%
REVENUE FROM RATE INCREASES (e)						
Effective March 1, 2002		\$29,280	\$119,460	\$121,840	\$124,280	\$126,760
Effective July 1, 2003			\$121,849	\$124,277	\$126,766	\$129,295
Effective July 1, 2004				\$126,762	\$129,301	\$131,881
Effective July 1, 2005					\$131,887	\$134,519
Effective July 1, 2006						\$137,209
Subtotal - Revenue from Rate Increases	\$ -	\$ 29,280	\$ 241,309	\$ 372,879	\$ 512,233	\$ 659,664
Total Rate Revenue	\$ 5,991,000	\$ 5,885,195	\$ 6,214,309	\$ 6,464,879	\$ 6,726,233	\$ 6,997,664
Annual Surplus/(Deficit) after Rate Increase f	\$ (333,393)	(\$2,293,823)	(\$438,591)	\$134,642	\$200,496	\$268,627

a. From Table FP-W1A.

b. Approximate rate increase needed to meet Net Revenue Requirements. Calculated in conjunction with the reserve contributions shown in Table FP-W1B.

c. Based on 01/02 Proposed Budget, from Budget Revenue Summary, Fund 650 Water, plus an assumed growth rate of 2% from the Morgan Hill General Plan, Comm. Devel., p.25, July 2001.

d. Before current year rate increase.

Assumed Growth Rate = 2.00%

e. Rate revenue from the rate increase shown and assuming the adopted date below.

f. Transferred to Fund 650 Working Capital.

Table FP-W1B summarizes the contributions to and ending balances of the reserve funds under a 2%/year rate increase. The results from this table are graphically presented in Figure1B.

Table FP-W1B

Projected Reserve Contributions and Balances (with Level Rate Increases of 2%/year)

City of Morgan Hill

	FY'01-02	FY'02-03	Water Financial Plan - Transfers and Reserve Balances			
	Est. Actual (a)	Current Plan	FY'03-04	FY'04-05	FY'05-06	FY'06-07
Water Operations Reserve Fund (650)						
<i>Fund Balance Without Rate Increases</i>						
Beginning Fund Balance	\$3,480,150 <i>b</i>	\$3,373,757	\$1,253,450	\$596,492	\$372,585	\$63,282
Annual Surplus/(Deficit)	(\$333,393)	(\$2,323,103)	(\$679,900)	(\$238,237)	(\$311,737)	(\$391,037)
Interest Income	<u>\$227,000</u>	<u>\$202,796</u>	<u>\$22,942</u>	<u>\$14,330</u>	<u>\$2,434</u>	<u>\$0</u>
Ending Fund Balance (650) (<i>Without</i> Rate Incr.)	\$3,373,757	\$1,253,450	\$596,492	\$372,585	\$63,282	(\$327,755)
<i>Fund Balance With Rate Increases</i>						
	Rate Increases:	2.0%	2.0%	2.0%	2.0%	2.0%
Beginning Fund Balance	\$3,480,150	\$3,373,757	\$1,282,730	\$877,904	\$1,053,048	\$1,303,687
Annual Surplus/(Deficit)	(\$333,393)	(\$2,293,823)	(\$438,591)	\$134,642	\$200,496	\$268,627
Interest Income	<u>\$227,000</u>	<u>\$202,796</u>	<u>\$33,766</u>	<u>\$40,502</u>	<u>\$50,142</u>	<u>\$62,893</u>
Ending Fund Balance (650) (<i>With</i> Rate Incr.)	\$3,373,757	\$1,282,730	\$877,904	\$1,053,048	\$1,303,687	\$1,635,206
Minimum Target Ending Balance (25% of Oper. Budget)	\$1,670,000	\$2,145,000	\$1,768,000	\$1,689,000	\$1,740,000	\$1,793,000
Water Rate Stabilization Fund (652)						
Beginning Fund Balance	\$797,457 <i>b</i>	\$838,989	\$871,833	\$958,833	\$1,048,833	\$1,142,833
Interest Income	\$42,000	\$32,844	\$37,000	\$40,000	\$44,000	\$48,000
Internal Services	(\$468)	\$0	\$0	\$0	\$0	\$0
<i>Transfer In from (Out to) Operations (650)</i>	<u>\$0</u>	<u>\$0</u>	<u>\$50,000</u>	<u>\$50,000</u>	<u>\$50,000</u>	<u>\$50,000</u>
Ending Fund Balance	\$838,989	\$871,833	\$958,833	\$1,048,833	\$1,142,833	\$1,240,833
Target Ending Balance (20% of Water Sales) <i>f</i>	\$1,200,000	\$1,200,000	\$1,200,000	\$1,200,000	\$1,200,000	\$1,300,000
Water Capital Projects Fund (653)						
Beginning Fund Balance	<i>g</i> \$3,648,853 <i>b</i>	\$3,972,472	\$1,157,482	\$1,006,482	\$1,447,482	\$1,307,482
Interest Earnings	\$29,000	\$7,662	\$39,000	\$56,000	\$50,000	\$68,000
Use of Money & Property	\$0	\$0	\$0	\$0	\$0	\$0
Re-Budgeted Capital Projects	\$0	(\$3,211,697)	\$0	\$0	\$0	\$0
Transfer In/(Out) Cap Proj. (Cur. Users)	(\$1,155,381)	(\$810,955)	(\$865,000)	(\$290,000)	(\$865,000)	(\$290,000)
<i>Transfer in from/(out to) Operations (650)</i> <i>e</i>	<u>\$1,450,000</u>	<u>\$1,200,000</u>	<u>\$675,000</u>	<u>\$675,000</u>	<u>\$675,000</u>	<u>\$675,000</u>
Ending Fund Balance	\$3,972,472	\$1,157,482	\$1,006,482	\$1,447,482	\$1,307,482	\$1,760,482
Target Ending Balance (Highest Annual CIP) <i>h</i>	\$1,500,000	\$1,545,000	\$1,591,000	\$1,639,000	\$1,688,000	\$1,739,000
Total Water Reserves (650, 652, 653) - Ending Balances						
Total Reserves (<i>Without</i> Rate Increases)	\$8,185,218	\$3,282,765	\$2,561,807	\$2,868,900	\$2,513,597	\$2,673,560
Total Reserves (<i>With</i> Rate Increases)	\$8,185,218	\$3,312,045	\$2,843,219	\$3,549,363	\$3,754,002	\$4,636,521
Total Target Reserves (650, 652, 653)	\$4,370,000	\$4,890,000	\$4,559,000	\$4,528,000	\$4,628,000	\$4,832,000
Water Impact Fund (651)						
Beginning Fund Balance	\$1,488,429 <i>b</i>	\$552,468	\$17,563	\$362,563	\$1,774,600	\$1,061,637
Interest Income	\$39,000	\$17,102	\$14,000	\$68,000	\$41,000	\$33,000
Impact Fees Received	<i>d</i> \$204,000	\$407,468	\$376,000	\$436,000	\$478,000	\$502,000
Net Proceeds from New Revenue Bonds				\$1,500,000		
Repayment of New Revenue Bonds					(\$140,000)	(\$140,000)
Re-Budgeted Capital Projects	\$0	(\$1,394,241)	\$0	\$0	\$0	\$0
<i>Transfer In From (Out To) Operations (650)</i>	\$0	\$1,335,000	\$0	\$0	\$0	\$0
<i>Repayment of Transfer From Operations (650)</i>		\$0		(\$471,963)	(\$471,963)	(\$471,963)
Well Construction Refund (One-time)		\$0	\$700,000	\$0	\$0	\$0
Transfer (Out) - Water CIP (Future Users) <i>e</i>	<u>(\$1,178,961)</u>	<u>(\$900,234)</u>	<u>(\$745,000)</u>	<u>(\$120,000)</u>	<u>(\$620,000)</u>	<u>(\$120,000)</u>
Ending Fund Balance	\$552,468	\$17,563	\$362,563	\$1,774,600	\$1,061,637	\$864,674
Minimum Target Ending Balance (Ave. of CIP)	\$660,000	\$680,000	\$700,000	\$720,000	\$740,000	\$760,000
Balance Owed on Transfer From Operations (650)			\$1,375,050	\$930,180	\$471,963	\$0

Note: Transfers in **bold italic font** are manual adjustments.

a. FY'01-02 is based on the City's 01/02 Proposed Budget, Fund 650 Water.

b. From City Finance Department records, fax from Jack Dilles, 10/1/02.

c. Determined in Water Rate Stabilization Fund (652) and Water Capital Projects Fund (653) below.

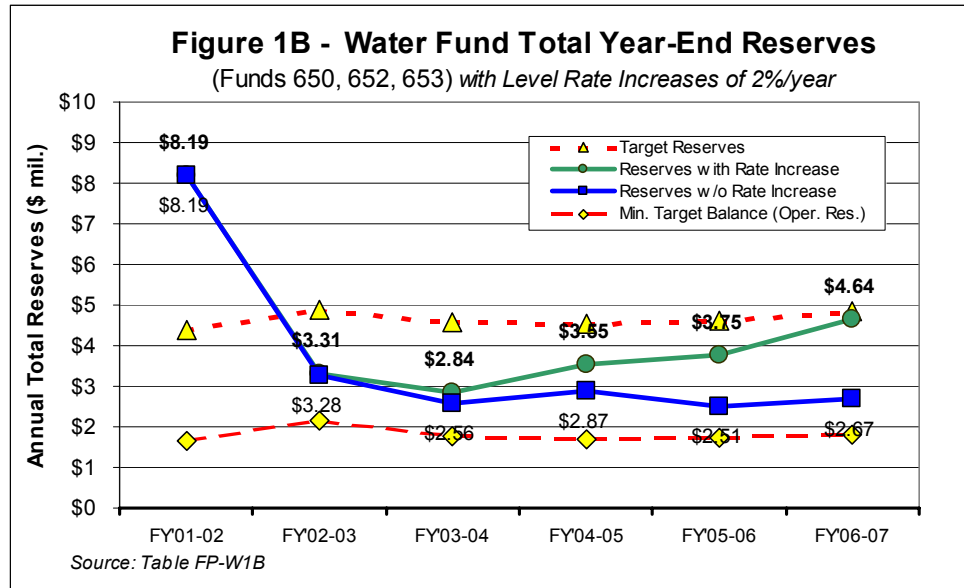
d. FY'01-02 and FY 02-03 are from current budget. After FY 02-03, revenues reflect new Impact Fees from Resolution 5592 as shown in Table CF-3.

e. From Table FP-W4, Summary of 5-Year CIP Water Projects. Funding sources in this table cover capital project costs from either Fund 651 or 653. FY 01-02 and 02-03 are budget numbers.

f. 20% of water sales to reflect a severe 1-year drought, rounded to nearest \$100,000.

g. On 6/30/01, the Water System Replacement Fund 655 was combined into the Water Capital Projects Funds 653. Source: City Finance Dept records, 10/1/02.

h. Target ending balance is the 5-year average CIP project costs for current users, from Table FP-W4.



ALTERNATIVE 2 – ONE-TIME WATER RATE INCREASE

The revenue requirements in this alternative are the same as previously shown in Table FP-W1A and Figure 1A. However, a one-time rate increase of 8% generates different amounts of rate revenue and has different impacts on the water reserve funds. These rate revenues and reserve fund impacts are summarized in Tables FP-W2C and FP-W2B, respectively. The changes in the reserves are graphically represented in Figure 2B.

Table FP-W2C

Water Rate Increase Alternative - Alternative 2 (One-Time Rate Increase)

City of Morgan Hill

	FY'01-02 Est. Actual (b)	FY'02-03 Current Plan	Water Financial Plan - Rate Increase Alternative			
			FY'03-04	FY'04-05	FY'05-06	FY'06-07
Net Revenue Requirements (a)	\$6,324,393	\$8,179,018	\$6,652,900	\$6,330,237	\$6,525,737	\$6,729,037
Revenue from Rates						
Revenue from Current Rates (c)	\$5,991,000	\$5,855,915	\$5,973,000	\$6,092,000	\$6,214,000	\$6,338,000
Revenue from previous years' rate increases	\$0	\$0	\$477,840	\$487,360	\$497,120	\$507,040
Subtotal	\$ 5,991,000	\$ 5,855,915	\$ 6,450,840	\$ 6,579,360	\$ 6,711,120	\$ 6,845,040
Current Year Surplus/(Deficit) (d)	\$ (333,393)	\$ (2,323,103)	\$ (202,060)	\$ 249,123	\$ 185,383	\$ 116,003
Surplus/(Deficit) (No Rate Increases)						
Rate Increase Alternative						
Cumulative Rate Increase			8.0%	8.0%	8.0%	8.0%
REVENUE FROM RATE INCREASES (e)						
Effective March 1, 2002		\$117,118	\$477,840	\$487,360	\$497,120	\$507,040
Effective July 1, 2003			\$0	\$0	\$0	\$0
Effective July 1, 2004				\$0	\$0	\$0
Effective July 1, 2005					\$0	\$0
Effective July 1, 2006						\$0
Subtotal - Revenue from Rate Increases	\$ -	\$ 117,118	\$ 477,840	\$ 487,360	\$ 497,120	\$ 507,040
Total Rate Revenue	\$ 5,991,000	\$ 5,973,033	\$ 6,450,840	\$ 6,579,360	\$ 6,711,120	\$ 6,845,040
Annual Surplus/(Deficit) after Rate Increase f	\$ (333,393)	\$ (2,205,985)	\$ (202,060)	\$ 249,123	\$ 185,383	\$ 116,003

a. From Table FP-W2A.

b. Approximate rate increase needed to meet Net Revenue Requirements. Calculated in conjunction with the reserve contributions shown in Table FP-W2B.

c. Based on 01/02 Proposed Budget, from Budget Revenue Summary, Fund 650 Water, plus an assumed growth rate of 2% from the Morgan Hill General Plan, Comm. Devel., p.25, July 2001.

d. Before current year rate increase.

Assumed Growth Rate = 2.00%

e. Rate revenue from the rate increase shown and assuming the adopted date below.

f. Transferred to Fund 650 Working Capital.

Table FP-W2B

Projected Reserve Contributions and Balances - Alternative 2 (One-Time Rate Increase)

City of Morgan Hill

	FY'01-02	FY'02-03	Water Financial Plan - Transfers and Reserve Balances			
	Est. Actual (a)	Current Plan	FY'03-04	FY'04-05	FY'05-06	FY'06-07
Water Operations Reserve Fund (650)						
<i>Fund Balance Without Rate Increases</i>						
Beginning Fund Balance	\$3,480,150 ^b	\$3,373,757	\$1,253,450	\$596,492	\$372,585	\$63,282
Annual Surplus/(Deficit)	(\$333,393)	(\$2,323,103)	(\$679,900)	(\$238,237)	(\$311,737)	(\$391,037)
Interest Income	<u>\$227,000</u>	<u>\$202,796</u>	<u>\$22,942</u>	<u>\$14,330</u>	<u>\$2,434</u>	<u>\$0</u>
Ending Fund Balance (650) (<i>Without</i> Rate Incr.)	\$3,373,757	\$1,253,450	\$596,492	\$372,585	\$63,282	(\$327,755)
<i>Fund Balance With Rate Increases</i>						
	Rate Increases:	8.0%	0.0%	0.0%	0.0%	0.0%
Beginning Fund Balance	\$3,480,150	\$3,373,757	\$1,370,568	\$1,215,249	\$1,522,946	\$1,776,663
Annual Surplus/(Deficit)	(\$333,393)	(\$2,205,985)	(\$202,060)	\$249,123	\$185,383	\$116,003
Interest Income	<u>\$227,000</u>	<u>\$202,796</u>	<u>\$46,740</u>	<u>\$58,575</u>	<u>\$68,333</u>	<u>\$75,707</u>
Ending Fund Balance (650) (<i>With</i> Rate Incr.)	\$3,373,757	\$1,370,568	\$1,215,249	\$1,522,946	\$1,776,663	\$1,968,372
Minimum Target Ending Balance (25% of Oper. Budget)	\$1,670,000	\$2,145,000	\$1,768,000	\$1,689,000	\$1,740,000	\$1,793,000
Water Rate Stabilization Fund (652)						
Beginning Fund Balance	\$797,457 ^b	\$838,989	\$871,833	\$958,833	\$1,048,833	\$1,142,833
Interest Income	\$42,000	\$32,844	\$37,000	\$40,000	\$44,000	\$48,000
Internal Services	(\$468)	\$0	\$0	\$0	\$0	\$0
Transfer In from (Out to) Operations (650)	\$0	\$0	\$50,000	\$50,000	\$50,000	\$50,000
Ending Fund Balance	\$838,989	\$871,833	\$958,833	\$1,048,833	\$1,142,833	\$1,240,833
Target Ending Balance (20% of Water Sales) ^f	\$1,200,000	\$1,200,000	\$1,200,000	\$1,200,000	\$1,200,000	\$1,300,000
Water Capital Projects Fund (653)						
Beginning Fund Balance	^g \$3,648,853 ^b	\$3,972,472	\$1,157,482	\$1,006,482	\$1,447,482	\$1,307,482
Interest Earnings	\$29,000	\$7,662	\$39,000	\$56,000	\$50,000	\$68,000
Use of Money & Property	\$0	\$0	\$0	\$0	\$0	\$0
Re-Budgeted Capital Projects	\$0	(\$3,211,697)	\$0	\$0	\$0	\$0
Transfer In/(Out) Cap Proj. (Cur. Users)	(\$1,155,381)	(\$810,955)	(\$865,000)	(\$290,000)	(\$865,000)	(\$290,000)
Transfer in from/(out to) Operations (650) ^e	\$1,450,000	\$1,200,000	\$675,000	\$675,000	\$675,000	\$675,000
Ending Fund Balance	\$3,972,472	\$1,157,482	\$1,006,482	\$1,447,482	\$1,307,482	\$1,760,482
Target Ending Balance (Highest Annual CIP) ^h	\$1,500,000	\$1,545,000	\$1,591,000	\$1,639,000	\$1,688,000	\$1,739,000
Total Water Reserves (650, 652, 653) - Ending Balances						
Total Reserves (Without Rate Increases)	\$8,185,218	\$3,282,765	\$2,561,807	\$2,868,900	\$2,513,597	\$2,673,560
Total Reserves (With Rate Increases)	\$8,185,218	\$3,399,883	\$3,180,564	\$4,019,261	\$4,226,978	\$4,969,687
Total Target Reserves (650, 652, 653)	\$4,370,000	\$4,890,000	\$4,559,000	\$4,528,000	\$4,628,000	\$4,832,000
Water Impact Fund (651)						
Beginning Fund Balance	\$1,488,429 ^b	\$552,468	\$17,563	\$362,563	\$1,774,600	\$1,061,637
Interest Income	\$39,000	\$17,102	\$14,000	\$68,000	\$41,000	\$33,000
Impact Fees Received	^d \$204,000	\$407,468	\$376,000	\$436,000	\$478,000	\$502,000
Proceeds from New Revenue Bonds				\$1,500,000		
Repayment of New Revenue Bonds					(\$140,000)	(\$140,000)
Re-Budgeted Capital Projects	\$0	(\$1,394,241)	\$0	\$0	\$0	\$0
Transfer In From Operations (650)	\$0	\$1,335,000	\$0	\$0	\$0	\$0
Repayment of Transfer From Operations (650)		\$0		(\$471,963)	(\$471,963)	(\$471,963)
Well Construction Refund (One-time)		\$0	\$700,000	\$0	\$0	\$0
Transfer (Out) - Water CIP (Future Users) ^e	(\$1,178,961)	(\$900,234)	(\$745,000)	(\$120,000)	(\$620,000)	(\$120,000)
Ending Fund Balance	\$552,468	\$17,563	\$362,563	\$1,774,600	\$1,061,637	\$864,674
Minimum Target Ending Balance (Ave. of CIP)	\$660,000	\$680,000	\$700,000	\$720,000	\$740,000	\$760,000
Balance Owed on Transfer From Operations (650)			\$1,375,050	\$930,180	\$471,963	\$0

Note: Transfers in **Bold Italics Font** are manual adjustments.

a. FY'01-02 is based on the City's 01/02 Proposed Budget, Fund 650 Water.

b. From City Finance Department records, 2/26/02.

c. Determined in Water Rate Stabilization Fund (652) and Water Capital Projects Fund (653) below.

d. FY'01-02 and FY 02-03 are from current budget. After FY 02-03, revenues reflect new Impact Fees from Resolution 5592 as shown in Table CF-3.

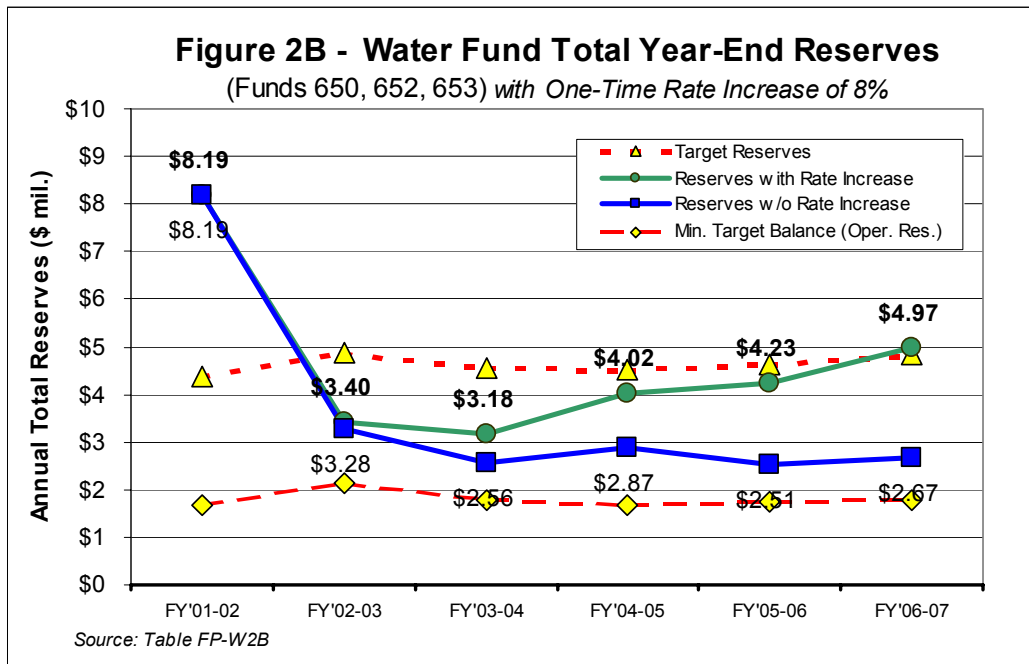
e. From Table FP-W4, Summary of 5-Year CIP Water Projects. Funding sources in this table cover capital project costs from either Fund 651 or 653. FY 01-02 and 02-03 are budget numbers.

f. 20% of water sales to reflect a severe 1-year drought, rounded to nearest \$100,000.

g. On 6/30/01, the Water System Replacement Fund 655 was combined into the Water Capital Projects Funds 653. The FY'01-02 beginning balance is for both funds.

Source: City Finance Dept records, 2/26/02.

h. Target ending balance is the 5-year average CIP project costs for current users, from Table FP-W4.



ALTERNATIVE 3 – ADDITIONAL DEBT ONLY

For this third alternative, we have assumed the City would issue an additional \$2 million in revenue bonds in FY 04-05 to fund projects in the Water Capital Projects Fund (653). We have assumed that the resulting debt service is based on a repayment period of 20 years, an interest rate of 6%, and issuance and reserve costs of 10%.

The primary benefits of this approach, which is in-lieu of rate increases, is that it avoids any rate increases, helps level out the ending fund balances, avoid deficits in fund 653, and meets overall reserve targets. The amount of additional debt incurred is a very moderate increase to the \$8 million already planned for FY 04-05. However, this does have the effect of increasing the City's repayment obligations and slightly increasing the City's revenue requirements in the long term when compared to a pay-as-you-go approach.

Table FP-W3A shows that the revenue requirements are slightly different than in Alternatives 1 and 2. This is due to different transfers to and from the reserve funds. Table FP-W3C shows the annual surplus/deficits with no rate increases, which are carried forward into the reserve fund balances shown in Table FP-W3B.

Table FP-W3A

Projected Water Fund Revenue Requirements - Alternative 3 (Additional Debt Only)

City of Morgan Hill

Water Fund Expenses	FY'01-02	FY'02-03	Water Financial Plan - Projected Revenue Req'ts. (b)			
	Est. Actual (a)	Current Plan	FY'03-04	FY'04-05	FY'05-06	FY'06-07
Water Operations						
Employee Services	\$864,807	\$950,991	\$1,036,200	\$1,067,200	\$1,099,200	\$1,132,200
Supplies & Services (Excl. Water Purchases)	1,338,095	1,652,130	1,675,000	1,725,300	1,776,900	1,830,300
Capital Outlay	73,760	64,275	106,200	68,200	70,200	72,200
Debt Service	554,481	551,372	551,300	551,300	551,300	551,300
Subtotal - Water Operations	\$2,831,143	\$3,218,768	\$3,368,700	\$3,412,000	\$3,497,600	\$3,586,000
Meter Reading/Reporting						
Personnel	229,987	216,278	222,600	229,200	236,100	243,100
Supplies & Services	47,087	81,260	83,700	85,900	88,300	90,800
Capital Outlay	174,446 ^c	319,340	329,000	338,800	349,000	359,400
Subtotal - Meter Reading	451,520	616,878	635,300	653,900	673,400	693,300
Utility Billing	300,053	347,753	358,000	368,600	379,700	390,900
Water Conservation	13,048	11,320	11,600	11,900	12,200	12,500
Total - Water Operations (w/o Water Purchases)	3,595,764	4,194,719	4,373,600	4,446,400	4,562,900	4,682,700
Water Purchases (Pump Tax)	1,005,316	1,115,847	1,217,000	1,279,000	1,343,000	1,411,000
Total - Water Operations (with Water Purchases)	4,601,080	5,310,566	5,590,600	5,725,400	5,905,900	6,093,700
Transfers Out To/(In From)						
Internal Service (45000)	264,808	317,299	326,800	336,600	346,700	357,100
Water Impact Fund (651)	0	1,335,000	0	(471,963)	(471,963)	(471,963)
Rate Stabil. Fund (652)	0	0	50,000	50,000	50,000	50,000
Capital Projects Fund (653)	1,450,000	1,200,000	350,000	350,000	350,000	350,000
Other (202, 720)	365,000	417,500	430,000	442,900	456,200	469,900
Subtotal - Transfers	2,079,808	3,269,799	1,156,800	707,537	730,937	755,037
Total - Operations & Transfers	6,680,888	8,580,365	6,747,400	6,432,937	6,636,837	6,848,737
less Misc. Non-Rate Revenue ^d	(\$356,495)	(\$401,347)	(\$419,500)	(\$427,700)	(\$436,100)	(\$444,700)
Net Revenue Requirements	\$6,324,393	\$8,179,018	\$6,327,900	\$6,005,237	\$6,200,737	\$6,404,037
Annual Change in Revenue Requirements		29.3%	-22.6%	-5.1%	3.3%	3.3%

a. From App. Table BP-W1, Water Operations - Summary of Budget Projections. Source of FY '01-02: Budget Expense Summary for Fund 650 Water, Apr. 19, 2001.

b. Projected using FY'01-02 budget and the inflation rates shown in Appendix Table BP-W1.

c. Includes "Debt Service" and "Int. Ser. & Transfers", which are projected as \$0.

d. Includes use of money and property, reimbursement of expenses, meter installations, delinquent charges, and other misc. current service charges.

e. From "Transfers In" section of Table BP-S2, Projected Sewer Operations - Fund 640.

Table FP-W3C

Water Rate Increases - Alternative 3 (Additional Debt Only)

City of Morgan Hill

	FY'01-02	FY'02-03	Water Financial Plan - Rate Increase Alternative			
	Est. Actual (b)	Current Plan	FY'03-04	FY'04-05	FY'05-06	FY'06-07
Net Revenue Requirements (a)	\$6,324,393	\$8,179,018	\$6,327,900	\$6,005,237	\$6,200,737	\$6,404,037
Revenue from Rates						
Revenue from Current Rates (c)	\$5,991,000	\$5,855,915	\$5,973,000	\$6,092,000	\$6,214,000	\$6,338,000
Revenue from previous years' rate increases	\$0	\$0	\$0	\$0	\$0	\$0
Subtotal	\$ 5,991,000	\$ 5,855,915	\$ 5,973,000	\$ 6,092,000	\$ 6,214,000	\$ 6,338,000
Current Year Surplus/(Deficit) (d)	\$ (333,393)	\$ (2,323,103)	\$ (354,900)	\$ 86,763	\$ 13,263	\$ (66,037)
Surplus/(Deficit) (No Rate Increases)		(\$2,323,103)	(\$354,900)	\$86,763	\$13,263	(\$66,037)
Rate Increase Alternative		0.0%	0.0%	0.0%	0.0%	0.0%
Cumulative Rate Increase		0.0%	0.0%	0.0%	0.0%	0.0%
REVENUE FROM RATE INCREASES (e)						
Effective March 1, 2002		\$0	\$0	\$0	\$0	\$0
Effective July 1, 2003			\$0	\$0	\$0	\$0
Effective July 1, 2004				\$0	\$0	\$0
Effective July 1, 2005					\$0	\$0
Effective July 1, 2006						\$0
Subtotal - Revenue from Rate Increases	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Rate Revenue	\$ 5,991,000	\$ 5,855,915	\$ 5,973,000	\$ 6,092,000	\$ 6,214,000	\$ 6,338,000
Annual Surplus/(Deficit) after Rate Increase f	\$ (333,393)	(\$2,323,103)	(\$354,900)	\$86,763	\$13,263	(\$66,037)

a. From Table FP-W3A.

b. Approximate rate increase needed to meet Net Revenue Requirements. Calculated in conjunction with the reserve contributions shown in Table FP-W3B.

c. Based on 01/02 Proposed Budget, from Budget Revenue Summary, Fund 650 Water, plus an assumed growth rate of 2% from the Morgan Hill General Plan, Comm. Devel., p.25, July 2001.

d. Before current year rate increase.

Assumed Growth Rate = 2.00%

e. Rate revenue from the rate increase shown and assuming the adopted date below.

f. Transferred to Fund 650 Working Capital.

Table FP-W3B

Projected Reserve Contributions and Balances - Alternative 3 (Additional Debt Only)

City of Morgan Hill

		FY'01-02	FY'02-03	Water Financial Plan - Transfers and Reserve Balances			
		Est. Actual (a)	Current Plan	FY'03-04	FY'04-05	FY'05-06	FY'06-07
Water Operations Reserve Fund (650)							
<i>Fund Balance Without Rate Increases</i>							
Beginning Fund Balance		\$3,480,150 <i>b</i>	\$3,373,757	\$1,253,450	\$934,492	\$1,062,105	\$1,118,383
Annual Surplus/(Deficit)		(\$333,393)	(\$2,323,103)	(\$354,900)	\$86,763	\$13,263	(\$66,037)
Interest Income		<u>\$227,000</u>	<u>\$202,796</u>	<u>\$35,942</u>	<u>\$40,850</u>	<u>\$43,015</u>	<u>\$42,094</u>
Ending Fund Balance (650) (<i>Without</i> Rate Incr.)		\$3,373,757	\$1,253,450	\$934,492	\$1,062,105	\$1,118,383	\$1,094,440
Minimum Target Ending Balance (25% of Oper. Budget)		\$1,670,000	\$2,145,000	\$1,687,000	\$1,608,000	\$1,659,000	\$1,712,000
Water Rate Stabilization Fund (652)							
Beginning Fund Balance		\$797,457 <i>b</i>	\$838,989	\$871,833	\$958,833	\$1,048,833	\$1,142,833
Interest Income		\$42,000	\$32,844	\$37,000	\$40,000	\$44,000	\$48,000
Internal Services		(\$468)	\$0	\$0	\$0	\$0	\$0
<i>Transfer In from (Out to) Operations (650)</i>		<u>\$0</u>	<u>\$0</u>	<u>\$50,000</u>	<u>\$50,000</u>	<u>\$50,000</u>	<u>\$50,000</u>
Ending Fund Balance		\$838,989	\$871,833	\$958,833	\$1,048,833	\$1,142,833	\$1,240,833
Target Ending Balance (20% of Water Sales) <i>f</i>		\$1,200,000	\$1,200,000	\$1,200,000	\$1,200,000	\$1,200,000	\$1,300,000
Water Capital Projects Fund (653)							
Beginning Fund Balance	<i>g</i>	\$3,648,853 <i>b</i>	\$3,972,472	\$1,157,482	\$668,482	\$2,837,482	\$2,217,482
Interest Earnings		\$29,000	\$7,662	\$26,000	\$109,000	\$85,000	\$83,000
Use of Money & Property		\$0	\$0	\$0	\$0	\$0	\$0
Re-Budgeted Capital Projects		\$0	(\$3,211,697)	\$0	\$0	\$0	\$0
Proceeds from New Revenue Bonds					\$2,000,000		
Repayment of New Revenue Bonds						(\$190,000)	(\$190,000)
Transfer In/(Out) Cap Proj. (Cur. Users)		(\$1,155,381)	(\$810,955)	(\$865,000)	(\$290,000)	(\$865,000)	(\$290,000)
<i>Transfer in from/(out to) Operations (650)</i> <i>e</i>		<u>\$1,450,000</u>	<u>\$1,200,000</u>	<u>\$350,000</u>	<u>\$350,000</u>	<u>\$350,000</u>	<u>\$350,000</u>
Ending Fund Balance		\$3,972,472	\$1,157,482	\$668,482	\$2,837,482	\$2,217,482	\$2,170,482
Target Ending Balance (Highest Annual CIP) <i>h</i>		\$1,500,000	\$1,545,000	\$1,591,000	\$1,639,000	\$1,688,000	\$1,739,000
Total Water Reserves (650, 652, 653) - Ending Balances							
Total Reserves (Without Rate Increases)		\$8,185,218	\$3,282,765	\$2,561,807	\$4,948,420	\$4,478,698	\$4,505,755
Total Target Reserves (650, 652, 653)		\$4,370,000	\$4,890,000	\$4,478,000	\$4,447,000	\$4,547,000	\$4,751,000
Water Impact Fund (651)							
Beginning Fund Balance		\$1,488,429 <i>b</i>	\$552,468	\$17,563	\$362,563	\$1,774,600	\$1,061,637
Interest Income		\$39,000	\$17,102	\$14,000	\$68,000	\$41,000	\$33,000
Impact Fees Received	<i>d</i>	\$204,000	\$407,468	\$376,000	\$436,000	\$478,000	\$502,000
Proceeds from New Revenue Bonds					\$1,500,000		
Repayment of New Revenue Bonds						(\$140,000)	(\$140,000)
Re-Budgeted Capital Projects		\$0	(\$1,394,241)	\$0	\$0	\$0	\$0
<i>Transfer In From (Out To) Operations (650)</i>		\$0	\$1,335,000	\$0	\$0	\$0	\$0
<i>Repayment of Transfer From Operations (650)</i>			\$0		(\$471,963)	(\$471,963)	(\$471,963)
<i>Well Construction Refund (One-time)</i>			\$0	\$700,000	\$0	\$0	\$0
Transfer (Out) - Water CIP (Future Users) <i>e</i>		<u>(\$1,178,961)</u>	<u>(\$900,234)</u>	<u>(\$745,000)</u>	<u>(\$120,000)</u>	<u>(\$620,000)</u>	<u>(\$120,000)</u>
Ending Fund Balance		\$552,468	\$17,563	\$362,563	\$1,774,600	\$1,061,637	\$864,674
Minimum Target Ending Balance (Ave. of CIP)		\$660,000	\$680,000	\$700,000	\$720,000	\$740,000	\$760,000
Balance Owed on Transfer From Operations (650)				\$1,375,050	\$930,180	\$471,963	\$0

Note: Transfers in **Bold Italic Font** are manual adjustments.

a. FY'01-02 is based on the City's 01/02 Proposed Budget, Fund 650 Water.

b. From City Finance Department records, 2/26/02.

c. Determined in Water Rate Stabilization Fund (652) and Water Capital Projects Fund (653) below.

d. FY'01-02 and FY 02-03 are from current budget. After FY 02-03, revenues reflect new Impact Fees from Resolution 5592 as shown in Table CF-3.

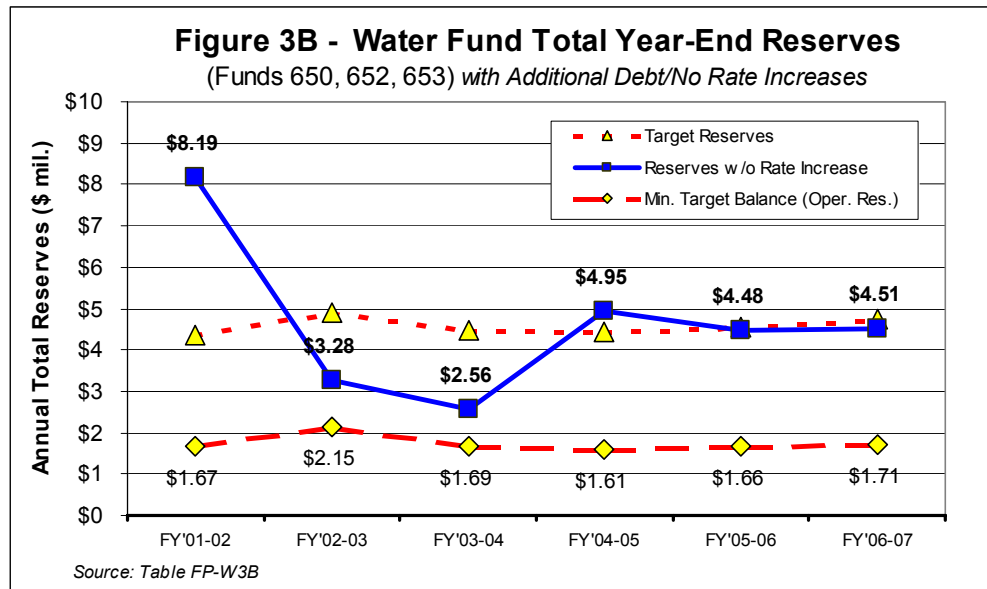
e. From Table FP-W4, Summary of 5-Year CIP Water Projects. Funding sources in this table cover capital project costs from either Fund 651 or 653. FY 01-02 and 02-03 are budget numbers.

f. 20% of water sales to reflect a severe 1-year drought, rounded to nearest \$100,000.

g. On 6/30/01, the Water System Replacement Fund 655 was combined into the Water Capital Projects Funds 653. The FY'01-02 beginning balance is for both funds.

Source: City Finance Dept records, 2/26/02.

h. Target ending balance is the 5-year average CIP project costs for current users, from Table FP-W4.



As shown in each of these three alternatives, the rate increases or additional debt are sufficient to maintain the year-end total reserve balances at or near the target level by the end of FY 06-07. However, each of them have their own benefits and difficulties, which the City will need to consider in developing more concrete plans for future funding of water revenue requirements.

APPENDIX A

Supporting Tables for Water Revenue Requirements

Table FP-W4

Summary of 5-Year CIP Water Projects

City of Morgan Hill

Project Name	Project Number	Water Financial Plan - Projected CIP Costs				
		FY'02-03	FY'03-04	FY'04-05	FY'05-06	FY'06-07
New Well Property/Construction	601,093	\$700,000	\$0	\$0	\$500,000	\$0
New Water Mains	603,093	120,000	120,000	120,000	120,000	120,000
Edmundson Main Distribution	619,002	80,000	625,000	0	0	0
Radio Telemetry	606,093	520,000	0	0	0	0
Rehabilitate Water Wells	608,093	0	190,000	0	190,000	0
Booster Pumps Rehabilitation	607,093	0	350,000	0	350,000	0
Polybutylene Service Replacement	615,095	0	325,000	0	325,000	0
Water Main Replacement	610,093	290,000	0	290,000	0	290,000
Total Projects Costs		\$1,710,000	\$1,610,000	\$410,000	\$1,485,000	\$410,000
Funding Sources						
317 - Redevelopment Agency		\$0	\$0	\$0	\$0	\$0
651 - Water Capital Exp. Fund		\$900,000	\$745,000	\$120,000	\$620,000	\$120,000
653 - Water Replacement Fund		\$810,000	\$865,000	\$290,000	\$865,000	\$290,000
Total Project Funding		\$1,710,000	\$1,610,000	\$410,000	\$1,485,000	\$410,000
Net Cost/(Surplus)		\$0	\$0	\$0	\$0	\$0

a. Source: Water System Master Plan - Final Administrative Draft Report, Table ES.2, Carollo Engineers, January 9, 2002.

b. Total costs of all intermediate-term projects allocated to current users is \$7,396,500. These projects are planned for FY 2005-10. The costs shown are assumed to be the average annual cost of those projects.

c. From Table FP-W3. Transfer from either Fund 651 or 653.

Table BP-W1

Water Operations - Summary of Budget Projections

City of Morgan Hill

Budget Category	FY'01-02		% Adjustment to '02-03	FY'02-03 Adopted	FY'02-03 Adjusted	Projected Revenue Requirements (b)			
	Est.	Actual (a)				FY'03-04	FY'04-05	FY'05-06	FY'06-07
Total Water Operations	\$ 3,836,459	110.17%		\$ 4,507,358	\$ 4,334,615	\$ 4,585,700	\$ 4,691,000	\$ 4,840,600	\$ 4,997,000
Total Meter Read/Rpr.	\$ 451,520	0.00%		\$ 616,878	\$ 616,878	\$ 635,300	\$ 653,900	\$ 673,400	\$ 693,300
Total Utility Billing	\$ 300,053	0.00%		\$ 347,753	\$ 347,753	\$ 358,000	\$ 368,600	\$ 379,700	\$ 390,900
Total Water Conservation	\$ 13,048	0.00%		\$ 11,320	\$ 11,320	\$ 11,600	\$ 11,900	\$ 12,200	\$ 12,500
Transfers	\$ 2,079,808			\$ 2,394,799	\$ 3,269,799	\$ 1,481,800	\$ 1,032,537	\$ 1,055,937	\$ 1,080,037
Total	\$ 6,680,888	110.17%		\$ 7,878,108	\$ 8,580,365	\$ 7,072,400	\$ 6,757,937	\$ 6,961,837	\$ 7,173,737
Plus Encumbrances	\$ 167,748	0.00%		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Less Non-Rate Revenues	\$ (524,243)	0.00%		\$ (401,647)	\$ (401,347)	\$ (419,500)	\$ (427,700)	\$ (436,100)	\$ (444,700)
Total Enterprise Costs:	\$ 6,324,393	110.17%		\$ 7,476,461	\$ 8,179,018	\$ 6,652,900	\$ 6,330,237	\$ 6,525,737	\$ 6,729,037
% Annual Increase				18.2%		-11.0%	-4.8%	3.1%	3.1%

a. Source of FY'01-02: FY 2002/03 Budget Process, from Jack Dilles, April 23, 2002.

b. FY'02-03 are from FY 2002/03 Budget Process, from Jack Dilles, April 23, 2002. Following years are based on 02-03 Requested Budget and projected inflation rates.

Table CF-3

Growth-Related CIP Costs and Connection Fee Revenue

City of Morgan Hill

Future Growth	Projected					
	FY01-02	FY02-03	FY03-04	FY04-05	FY05-06	FY06-07
Projected Number of DU's (a)	12,186	12,430	12,678	12,932	13,190	13,454
Growth Rate (b)	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
No. of New DU's per Growth Rate	239	244	249	254	259	264
Projected Impact Fee Revenue						
Water Utility Impact Fee (c)			\$1,514	\$1,719	\$1,848	\$1,904
Water Utility Impact Fee Revenue (d)			\$376,000	\$436,000	\$478,000	\$502,000
Sewer Utility Impact Fee (c)			\$6,960	\$7,830	\$8,389	\$8,641
Sewer Utility Impact Fee Revenue (d)			\$1,730,000	\$1,985,000	\$2,170,000	\$2,279,000

a. Number of equivalent dwelling units based on City records (see Table SC-W1). EDUs include non-residential customers.

b. From Sewer System Master Plan - Final Administrative Draft Report, Table 2.2, Carollo Engineers, January 9, 2002.

c. Impact Fees adopted in City Resolution 5592, effective 1-15-03. Average of consecutive fiscal year fees is used to account for mid-year effective date.

	FY01-02	FY02-03	FY03-04	FY04-05	FY05-06	FY06-07
Current and Adopted Water Impact Fees	\$1,154	\$1,411	\$1,616	\$1,821	\$1,876	\$1,932
Fiscal Year Average		\$1,283	\$1,514	\$1,719	\$1,848	\$1,904
Current and Adopted Sewer Impact Fees	\$5,416	\$6,525	\$7,395	\$8,265	\$8,513	\$8,768
Fiscal Year Average		\$5,971	\$6,960	\$7,830	\$8,389	\$8,641

FY 05-06 and 06-07 are projected at 3%/year inflation.

d. Number of new EDUs times the Impact Fees. Rounded to the nearest \$1,000.

Table BP-W2

Projected Water Operations - Fund 650 (a)

City of Morgan Hill

	FY'01-02	% Adjustment	FY'02-03	FY'02-03	Projected Revenue Requirements (b)				Inflation
	Est. Actual	to '02-03	Adopted	Adjusted	FY'03-04	FY'04-05	FY'05-06	FY'06-07	Rate Used
Water Operations -- Employee Services									
41100 Salaries-General	\$ 585,862	100.00%	\$ 738,787	\$ 738,787	\$ 761,000	\$ 783,800	\$ 807,300	\$ 831,500	3.0%
41100 Additional Utility Worker	\$ -	100.00%	\$ -	\$ -	\$ 56,700	\$ 58,400	\$ 60,200	\$ 62,000	3.0%
41320 Salaries-Other Payouts	\$ 18,915	100.00%	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	3.0%
41490 Overtime-General	\$ 48,663	100.00%	\$ 57,000	\$ 57,000	\$ 58,700	\$ 60,500	\$ 62,300	\$ 64,200	3.0%
41799 Benefits	\$ 158,165	100.00%	\$ 192,169	\$ 192,169	\$ 197,900	\$ 203,800	\$ 209,900	\$ 216,200	3.0%
41800 Uniform	\$ 7,633	100.00%	\$ 9,535	\$ 9,535	\$ 9,800	\$ 10,100	\$ 10,400	\$ 10,700	3.0%
41900 Contract Labor	\$ 45,569	100.00%	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
5% Vacancy Factor			\$ (46,500)	\$ (46,500)	\$ (47,900)	\$ (49,400)	\$ (50,900)	\$ (52,400)	
Subtotal	\$ 864,807	100.00%	\$ 950,991	\$ 950,991	\$ 1,036,200	\$ 1,067,200	\$ 1,099,200	\$ 1,132,200	
Water Operations -- Supplies & Services									
42205 Taxes - SCUWD Pump Tax	\$ 1,005,316	96.29%	\$ 1,158,840	\$ 1,115,847	\$ 1,217,000	\$ 1,279,000	\$ 1,343,000	\$ 1,411,000	=====>
42208 Electric	\$ 785,211	89.62%	\$ 960,750	\$ 861,000	\$ 860,100	\$ 885,900	\$ 912,500	\$ 939,900	3.0%
42214 Telephone	\$ 20,989	100.00%	\$ 25,000	\$ 25,000	\$ 25,800	\$ 26,600	\$ 27,400	\$ 28,200	3.0%
42228 Gasoline & Oil	\$ 12,057	100.00%	\$ 38,665	\$ 38,665	\$ 39,800	\$ 41,000	\$ 42,200	\$ 43,500	3.0%
42231 Contract Services	\$ 242,600	90.63%	\$ 320,130	\$ 290,130	\$ 298,800	\$ 307,800	\$ 317,000	\$ 326,500	3.0%
42240 Rentals-Outside	\$ 18,993	100.00%	\$ 6,000	\$ 6,000	\$ 6,200	\$ 6,400	\$ 6,600	\$ 6,800	3.0%
42242 Rents	\$ 29,855	100.00%	\$ 24,457	\$ 24,457	\$ 25,200	\$ 26,000	\$ 26,800	\$ 27,600	3.0%
42244 Stationary & Off. Supp.	\$ 4,315	100.00%	\$ 4,000	\$ 4,000	\$ 4,100	\$ 4,200	\$ 4,300	\$ 4,400	3.0%
42248 Other Supplies	\$ 95,158	100.00%	\$ 151,800	\$ 151,800	\$ 156,400	\$ 161,100	\$ 165,900	\$ 170,900	3.0%
42250 Advertising	\$ 522	100.00%	\$ 900	\$ 900	\$ 900	\$ 900	\$ 900	\$ 900	3.0%
42252 Photocopying	\$ -	100.00%	\$ 500	\$ 500	\$ 500	\$ 500	\$ 500	\$ 500	3.0%
42254 Postage & Freight	\$ 590	100.00%	\$ 3,200	\$ 3,200	\$ 3,300	\$ 3,400	\$ 3,500	\$ 3,600	3.0%
42257 Printing	\$ 2,379	100.00%	\$ 5,200	\$ 5,200	\$ 5,400	\$ 5,600	\$ 5,800	\$ 6,000	3.0%
42261 Auto Mileage	\$ -	100.00%	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	3.0%
42265 Auto Allowance	\$ (33)	100.00%	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	3.0%
42273 Wtr/Sewer Maint. Service	\$ 13,401	100.00%	\$ 81,500	\$ 81,500	\$ 83,900	\$ 86,400	\$ 89,000	\$ 91,700	3.0%
42281 Small Tools	\$ 4,253	100.00%	\$ 4,250	\$ 4,250	\$ 4,400	\$ 4,500	\$ 4,600	\$ 4,700	3.0%
42299 Other Expense	\$ 12,561	100.00%	\$ 20,000	\$ 20,000	\$ 20,600	\$ 21,200	\$ 21,800	\$ 22,500	3.0%
42408 Training & Education	\$ 11,776	100.00%	\$ 15,000	\$ 15,000	\$ 15,500	\$ 16,000	\$ 16,500	\$ 17,000	3.0%
42415 Conference & Meetings	\$ 2,763	100.00%	\$ 4,000	\$ 4,000	\$ 4,100	\$ 4,200	\$ 4,300	\$ 4,400	3.0%
42423 Membership & Dues	\$ 2,113	100.00%	\$ 2,700	\$ 2,700	\$ 2,800	\$ 2,900	\$ 3,000	\$ 3,100	3.0%
42435 Subscription & Pub.	\$ 783	100.00%	\$ 915	\$ 915	\$ 900	\$ 900	\$ 900	\$ 900	3.0%
42510 Maint.-Bldgs/Improve.	\$ -	100.00%	\$ 5,500	\$ 5,500	\$ 5,700	\$ 5,900	\$ 6,100	\$ 6,300	3.0%
42523 Maint.-Mach/Equipment	\$ 3,843	100.00%	\$ 9,000	\$ 9,000	\$ 9,300	\$ 9,600	\$ 9,900	\$ 10,200	3.0%
42526 Maint.-Auto/Trucks	\$ 20,409	100.00%	\$ 23,000	\$ 23,000	\$ 23,700	\$ 24,400	\$ 25,100	\$ 25,900	3.0%
42531 Maint.-Furn/Off Equip	\$ 360	100.00%	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	3.0%
42536 Maint.-Other	\$ 641	100.00%	\$ 1,650	\$ 1,650	\$ 1,700	\$ 1,800	\$ 1,900	\$ 2,000	3.0%
42550 Fleet Replacement Charge	\$ 52,556	100.00%	\$ 72,763	\$ 72,763	\$ 74,900	\$ 77,100	\$ 79,400	\$ 81,800	3.0%
Subtotal	\$ 2,343,411	94.13%	\$ 2,940,720	\$ 2,767,977	\$ 2,892,000	\$ 3,004,300	\$ 3,119,900	\$ 3,241,300	
Water Operations -- Capital Outlay									
43825 Machinery/Equipment	\$ 54,773	100.00%	\$ 44,000	\$ 44,000	\$ 85,300	\$ 46,700	\$ 48,100	\$ 49,500	3.0%
43835 Furniture/Office Equip	\$ 5,876	100.00%	\$ 7,425	\$ 7,425	\$ 7,600	\$ 7,800	\$ 8,000	\$ 8,200	3.0%
43840 Computer Equipment	\$ 7,608	100.00%	\$ 6,865	\$ 6,865	\$ 7,100	\$ 7,300	\$ 7,500	\$ 7,700	3.0%
43845 Computer Software	\$ 5,503	100.00%	\$ 5,985	\$ 5,985	\$ 6,200	\$ 6,400	\$ 6,600	\$ 6,800	3.0%
Subtotal	\$ 73,760	100.00%	\$ 64,275	\$ 64,275	\$ 106,200	\$ 68,200	\$ 70,200	\$ 72,200	
Water Operations -- Debt Service									
44990 Principal	\$ 210,320	100.00%	\$ 210,320	\$ 210,320	\$ 210,300	\$ 210,300	\$ 210,300	\$ 210,300	
44991 Interest	\$ 337,720	100.00%	\$ 337,720	\$ 337,720	\$ 337,700	\$ 337,700	\$ 337,700	\$ 337,700	
44994-5 Lease/Service Payments	\$ 6,441	100.00%	\$ 3,332	\$ 3,332	\$ 3,300	\$ 3,300	\$ 3,300	\$ 3,300	
Subtotal	\$ 554,481	100.00%	\$ 551,372	\$ 551,372	\$ 551,300	\$ 551,300	\$ 551,300	\$ 551,300	
Water Operations - Internal Service & Transfers									
45000 Internal Service	\$ 264,808	100.00%	\$ 317,299	\$ 317,299	\$ 326,800	\$ 336,600	\$ 346,700	\$ 357,100	3.0%
Tran. Out - Street Maintenance	\$ 350,000	100.00%	\$ 400,000	\$ 400,000	\$ 412,000	\$ 424,400	\$ 437,100	\$ 450,200	3.0%
Tran. Out One-Time (651)	\$ -	100.00%	\$ 460,000	\$ 1,335,000	\$ -	\$ (471,963)	\$ (471,963)	\$ (471,963)	
Tran. Out (In) (652)	\$ -		\$ -	\$ -	\$ 50,000	\$ 50,000	\$ 50,000	\$ 50,000	
Tran. Out - General Fund	\$ 15,000	100.00%	\$ 17,500	\$ 17,500	\$ 18,000	\$ 18,500	\$ 19,100	\$ 19,700	3.0%
Tran. Out - Water Replac. (65)	\$ 1,450,000	100.00%	\$ 1,200,000	\$ 1,200,000	\$ 675,000	\$ 675,000	\$ 675,000	\$ 675,000	
49000 Subtotal - Transfers Out	\$ 1,815,000	100.00%	\$ 2,077,500	\$ 2,952,500	\$ 1,155,000	\$ 695,937	\$ 709,237	\$ 722,937	3.0%
Subtotal - Int. Ser. & Trans. Out	\$ 2,079,808	136.54%	\$ 2,394,799	\$ 3,269,799	\$ 1,481,800	\$ 1,032,537	\$ 1,055,937	\$ 1,080,037	
Total Water Operations	\$ 5,916,267	110.17%	\$ 6,902,157	\$ 7,604,414	\$ 6,067,500	\$ 5,723,537	\$ 5,896,537	\$ 6,077,037	

Table BP-W2 (cont.)

Projected Water Operations - Fund 650 (a)

City of Morgan Hill

METER READING/REPORTING**Meter Read/Rpr. -- Personnel**

41100 Salaries-General	\$ 176,670	\$ 166,260	\$ 166,260	\$ 171,200	\$ 176,300	\$ 181,600	\$ 187,000	3.0%
41320 Salaries-Other Payouts	\$ 2,805	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	3.0%
41490 Overtime-General	\$ 1,629	\$ 1,200	\$ 1,200	\$ 1,200	\$ 1,200	\$ 1,200	\$ 1,200	3.0%
41799 Benefits	\$ 47,214	\$ 45,768	\$ 45,768	\$ 47,100	\$ 48,500	\$ 50,000	\$ 51,500	3.0%
41800 Uniform	\$ 1,669	\$ 3,050	\$ 3,050	\$ 3,100	\$ 3,200	\$ 3,300	\$ 3,400	3.0%
Subtotal	\$ 229,987	\$ 216,278	\$ 216,278	\$ 222,600	\$ 229,200	\$ 236,100	\$ 243,100	

Meter Read/Rpr. -- Supplies & Services

42228 Gasoline & Oil	\$ 2,390	\$ 3,482	\$ 3,482	\$ 3,600	\$ 3,700	\$ 3,800	\$ 3,900	3.0%
42231 Contract Services	\$ 10,629	\$ 30,280	\$ 30,280	\$ 31,200	\$ 32,100	\$ 33,100	\$ 34,100	3.0%
42240-2 Rentals-Outside	\$ 697	\$ 746	\$ 746	\$ 800	\$ 800	\$ 800	\$ 800	3.0%
42244 Stationary & Off. Supp.	\$ 401	\$ 425	\$ 425	\$ 400	\$ 400	\$ 400	\$ 400	3.0%
42248 Other Supplies	\$ 20,165	\$ 30,700	\$ 30,700	\$ 31,600	\$ 32,500	\$ 33,500	\$ 34,500	3.0%
42252 Photocopying	\$ -	\$ 105	\$ 105	\$ 100	\$ 100	\$ 100	\$ 100	3.0%
42254 Postage & Freight	\$ 7	\$ 100	\$ 100	\$ 100	\$ 100	\$ 100	\$ 100	3.0%
42257 Printing	\$ -	\$ 500	\$ 500	\$ 500	\$ 500	\$ 500	\$ 500	3.0%
42281 Small Tools	\$ 1,750	\$ 600	\$ 600	\$ 600	\$ 600	\$ 600	\$ 600	3.0%
42408 Training & Education	\$ 802	\$ 1,510	\$ 1,510	\$ 1,600	\$ 1,600	\$ 1,600	\$ 1,600	3.0%
42523 Maint.-Mach/Equipment	\$ -	\$ 1,500	\$ 1,500	\$ 1,500	\$ 1,500	\$ 1,500	\$ 1,500	3.0%
42526 Maint.-Auto/Trucks	\$ 7,337	\$ 7,720	\$ 7,720	\$ 8,000	\$ 8,200	\$ 8,400	\$ 8,700	3.0%
42531 Maint.-Furn/Off Equip	\$ 46	\$ 210	\$ 210	\$ 200	\$ 200	\$ 200	\$ 200	3.0%
42536 Maint.-Other	\$ 410	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	3.0%
42550 Fleet Replacement Charge	\$ 2,453	\$ 2,382	\$ 2,382	\$ 2,500	\$ 2,600	\$ 2,700	\$ 2,800	3.0%
Subtotal	\$ 47,087	\$ 81,260	\$ 81,260	\$ 83,700	\$ 85,900	\$ 88,300	\$ 90,800	

Meter Read/Rpr. -- Capital Outlay

43825 Machinery/Equipment	\$ -	\$ 3,000	\$ 3,000	\$ 3,100	\$ 3,200	\$ 3,300	\$ 3,400	3.0%
43835 Furniture/Office Equip	\$ 344	\$ 1,425	\$ 1,425	\$ 1,500	\$ 1,500	\$ 1,500	\$ 1,500	3.0%
43840 Computer Equipment	\$ 272	\$ 810	\$ 810	\$ 800	\$ 800	\$ 800	\$ 800	3.0%
43845 Computer Software	\$ 1,310	\$ 1,810	\$ 1,810	\$ 1,900	\$ 2,000	\$ 2,100	\$ 2,200	3.0%
43897 Meters	\$ 118,021	\$ 250,000	\$ 250,000	\$ 257,500	\$ 265,200	\$ 273,200	\$ 281,400	3.0%
Subtotal	\$ 119,947	\$ 257,045	\$ 257,045	\$ 264,800	\$ 272,700	\$ 280,900	\$ 289,300	

Debt Service

44991 Interest	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
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Meter Read/Rpr. - Internal Service & Transfers

Subtotal	\$ 54,499	\$ 62,295	\$ 62,295	\$ 64,200	\$ 66,100	\$ 68,100	\$ 70,100	3.0%
Total Meter Read/Rpr	\$ 451,520	\$ 616,878	\$ 616,878	\$ 635,300	\$ 653,900	\$ 673,400	\$ 693,300	

UTILITY BILLING**Utility Billing -- Employee Services**

41100 Salaries-General	\$ 120,497	\$ 144,604	\$ 144,604	\$ 148,900	\$ 153,400	\$ 158,000	\$ 162,700	3.0%
41270 Salaries-Part-Time	\$ 12,604	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	3.0%
41320 Salaries-Other Payouts	\$ 1,648	\$ 2,200	\$ 2,200	\$ 2,300	\$ 2,400	\$ 2,500	\$ 2,600	3.0%
41490 Overtime-General	\$ 610	\$ 1,500	\$ 1,500	\$ 1,500	\$ 1,500	\$ 1,500	\$ 1,500	3.0%
41799 Benefits	\$ 32,801	\$ 33,597	\$ 33,597	\$ 34,600	\$ 35,600	\$ 36,700	\$ 37,800	3.0%
41900 Contract Labor	\$ 8,985	\$ 5,000	\$ 5,000	\$ 5,200	\$ 5,400	\$ 5,600	\$ 5,800	3.0%
Subtotal	\$ 177,145	\$ 186,901	\$ 186,901	\$ 192,500	\$ 198,300	\$ 204,300	\$ 210,400	

Utility Billing -- Supplies & Services

42214 Telephone	\$ 2,351	\$ 3,230	\$ 3,230	\$ 3,300	\$ 3,400	\$ 3,500	\$ 3,600	3.0%
42231 Contract Services	\$ 14,219	\$ 36,316	\$ 36,316	\$ 37,400	\$ 38,500	\$ 39,700	\$ 40,900	3.0%
42244 Stationary & Off. Supp.	\$ 1,900	\$ 4,500	\$ 4,500	\$ 4,600	\$ 4,700	\$ 4,800	\$ 4,900	3.0%
42252 Photocopying	\$ 10	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	3.0%
42254 Postage & Freight	\$ 45,498	\$ 46,800	\$ 46,800	\$ 48,200	\$ 49,600	\$ 51,100	\$ 52,600	3.0%
42257 Printing	\$ 4,199	\$ 4,000	\$ 4,000	\$ 4,100	\$ 4,200	\$ 4,300	\$ 4,400	3.0%
42261 Auto Mileage	\$ (9)	\$ 235	\$ 235	\$ 200	\$ 200	\$ 200	\$ 200	3.0%
42408 Training & Education	\$ -	\$ 3,400	\$ 3,400	\$ 3,500	\$ 3,600	\$ 3,700	\$ 3,800	3.0%
42435 Subscription & Pub.	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	3.0%
42531 Maint.-Furn/Off Equip	\$ 294	\$ 712	\$ 712	\$ 700	\$ 700	\$ 700	\$ 700	3.0%
Subtotal	\$ 68,462	\$ 99,193	\$ 99,193	\$ 102,000	\$ 104,900	\$ 108,000	\$ 111,100	

Utility Billing -- Capital Outlay

43835 Furniture/Office Equip	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	3.0%
43840 Computer Equipment	\$ 2,430	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	3.0%
43845 Computer Software	\$ 3,725	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	3.0%
Subtotal	\$ 6,155	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	

Utility Billing -- Debt Service

Table BP-W2 (cont.)

Projected Water Operations - Fund 650 (a)
*City of Morgan Hill***Water Fund 650 Revenues (b)****Use of Money & Property**

		----- Included in Table FP-W3 -----						
Interest Income								3.0%
Rent & Concessions	\$ 12,000	\$ 8,000	\$ 8,000	\$ 8,200	\$ 8,400	\$ 8,700	\$ 9,000	3.0%
Subtotal	\$ 12,000	\$ 8,000	\$ 8,000	\$ 8,200	\$ 8,400	\$ 8,700	\$ 9,000	
Charges Current Services								
Administration Fee	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	1.0%
Front Footage/Offsite	\$ 100,000	\$ 25,000	\$ 25,000	\$ 25,300	\$ 25,600	\$ 25,900	\$ 26,200	1.0%
Meter Install & Service	\$ 75,000	\$ 48,000	\$ 48,000	\$ 48,500	\$ 49,000	\$ 49,500	\$ 50,000	1.0%
Delinq. Water Turn Off/On	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	1.0%
Fire Hydrant Charge	\$ 20,000	\$ 20,000	\$ 20,000	\$ 20,200	\$ 20,400	\$ 20,600	\$ 20,800	1.0%
Subtotal	\$ 195,000	\$ 93,000	\$ 93,000	\$ 94,000	\$ 95,000	\$ 96,000	\$ 97,000	
Other Revenue								
Other Revenue	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	3.0%
Connection Fees	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	3.0%
Misc. Reimbursement	\$ 10,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	3.0%
Reimb. of Expenses	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	3.0%
Reimb. of Expenses/FEMA	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	3.0%
Surplus Sales	\$ -	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	3.0%
Misc. Revenue	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	3.0%
Subtotal	\$ 10,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	
Charges Current Service								
Utility Account Set-up	\$ 22,400	\$ 29,500	\$ 29,500	\$ 29,800	\$ 30,100	\$ 30,400	\$ 30,700	1.0%
Annual Backflow Inspect	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	1.0%
Const. Inspect.-Backflow	\$ 6,000	\$ 4,000	\$ 4,000	\$ 4,000	\$ 4,000	\$ 4,000	\$ 4,000	1.0%
Utility Bill Delinq Chr.	\$ 12,000	\$ 15,000	\$ 15,000	\$ 15,200	\$ 15,400	\$ 15,600	\$ 15,800	1.0%
Delinquent Bill Charge	\$ 24,000	\$ 68,770	\$ 68,770	\$ 69,500	\$ 70,200	\$ 70,900	\$ 71,600	1.0%
Utility Service Call	\$ 2,000	\$ 8,200	\$ 8,200	\$ 8,300	\$ 8,400	\$ 8,500	\$ 8,600	1.0%
Chgs-Curr/Plans & Specs	\$ 300	\$ 300	\$ -	\$ 300	\$ 300	\$ 300	\$ 300	1.0%
Subtotal	\$ 66,700	\$ 125,770	\$ 125,470	\$ 127,100	\$ 128,400	\$ 129,700	\$ 131,000	
Transfer In								
Transfer/GF Admin.	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	3.0%
Transfer-Sewer Ops.	\$ 240,543	\$ 173,877	\$ 173,877	\$ 189,200	\$ 194,900	\$ 200,700	\$ 206,700	3.0%
Subtotal	\$ 240,543	\$ 173,877	\$ 173,877	\$ 189,200	\$ 194,900	\$ 200,700	\$ 206,700	
Total Non-Rate Revenue	\$ 524,243	\$ 401,647	\$ 401,347	\$ 419,500	\$ 427,700	\$ 436,100	\$ 444,700	

a. Source of '01-02 subtotals: *FY 2002/03 Budget Process*, Jack Dilles, Apr 23, 2002. Details are estimated using previous '01-02 details not provided in this update.b. FY'02-03 are from *FY 2002/03 Budget Process*, from Jack Dilles, April 23, 2002. Following years are based on '02-03 Requested Budget and projected inflation rates.

c. Transfers from Water Rate Stabilization Fund are not considered here. See Financial Plan Table FP-W3.

APPENDIX B

Supporting Tables for Sewer Revenue Requirements

Table BP-S1

Budget Projections - Sewer Operations (O&M Expense Detail)

City of Morgan Hill

		YTD	5-Year Financial Plan					Inflation/Escalation Factors			
Acct	Account Name	Expenses FY01-02	Adopted Budget FY02-03	Projection FY03-04	Projection FY04-05	Projection FY05-06	Projection FY06-07	Projection FY03-04	Projection FY04-05	Projection FY05-06	Projection FY06-07
EMPLOYEE SERVICES											
41100	Salaries-General	\$	681,889	\$ 702,300	\$ 723,400	\$ 745,100	\$ 767,500	3.0%	3.0%	3.0%	3.0%
41100	Additional Utility Worker		-	56,700	58,400	60,200	62,000	3.0%	3.0%	3.0%	3.0%
41320/330	Salaries-Other Payouts		-	-	-	-	-	3.0%	3.0%	3.0%	3.0%
41490	Overtime-General		20,000	20,600	21,200	21,800	22,500	3.0%	3.0%	3.0%	3.0%
41799	Benefits		175,861	181,100	186,500	192,100	197,900	3.0%	3.0%	3.0%	3.0%
41800	Uniform		9,770	10,100	10,400	10,700	11,000	3.0%	3.0%	3.0%	3.0%
41900	Contract Labor		-	-	-	-	-	3.0%	3.0%	3.0%	3.0%
Subtotal	Employee Services	\$ 794,628	\$ 887,520	\$ 970,800	\$ 999,900	\$ 1,029,900	\$ 1,060,900				
SUPPLIES & SERVICES											
42208	Electric/Natural Gas	\$	33,075	\$ 34,100	\$ 35,100	\$ 36,200	\$ 37,300	3.0%	3.0%	3.0%	3.0%
42214	Telephone		2,300	2,400	2,500	2,600	2,700	3.0%	3.0%	3.0%	3.0%
42228	Gasoline & oil		17,914	18,500	19,100	19,700	20,300	3.0%	3.0%	3.0%	3.0%
42231	Contract Services		148,175	152,600	157,200	161,900	166,800	3.0%	3.0%	3.0%	3.0%
42240	Rents-Outside		6,500	6,700	6,900	7,100	7,300	3.0%	3.0%	3.0%	3.0%
42242	Rent-Corp. Yard		23,192	23,900	24,600	25,300	26,100	3.0%	3.0%	3.0%	3.0%
42244	Stationery & Office Supplies		1,885	1,900	2,000	2,100	2,200	3.0%	3.0%	3.0%	3.0%
42248	Other Supplies		72,960	75,100	77,400	79,700	82,100	3.0%	3.0%	3.0%	3.0%
42250	Advertising		680	700	700	700	700	3.0%	3.0%	3.0%	3.0%
42252	Photocopying		200	200	200	200	200	3.0%	3.0%	3.0%	3.0%
42254	Postage & Freight		500	500	500	500	500	3.0%	3.0%	3.0%	3.0%
42257	Printing		750	800	800	800	800	3.0%	3.0%	3.0%	3.0%
42270	SCRWA		2,196,626	2,262,500	2,330,400	2,400,300	2,472,300	3.0%	3.0%	3.0%	3.0%
42273	Sewer Maintenance Service		71,875	74,000	76,200	78,500	80,900	3.0%	3.0%	3.0%	3.0%
42281	Small Tools		6,420	6,600	6,800	7,000	7,200	3.0%	3.0%	3.0%	3.0%
42299	Other Expense		475	500	500	500	500	3.0%	3.0%	3.0%	3.0%
42408	Training & Education		13,000	13,400	13,800	14,200	14,600	3.0%	3.0%	3.0%	3.0%
42415	Conference & Meetings		1,800	1,900	2,000	2,100	2,200	3.0%	3.0%	3.0%	3.0%
42423	Membership & Dues		1,000	1,000	1,000	1,000	1,000	3.0%	3.0%	3.0%	3.0%
42435	Subscriptions & Publications		350	400	400	400	400	3.0%	3.0%	3.0%	3.0%
42523	Maintenance-Machine/Equipment		7,500	7,700	7,900	8,100	8,300	3.0%	3.0%	3.0%	3.0%
42526	Maintenance-Auto & Trucks		44,000	45,300	46,700	48,100	49,500	3.0%	3.0%	3.0%	3.0%
42531	Maintenance-Furniture/Office Equip.		735	800	800	800	800	3.0%	3.0%	3.0%	3.0%
42536	Maintenance-Other		835	900	900	900	900	3.0%	3.0%	3.0%	3.0%
42550	Fleet Replacement Charge		48,939	50,400	51,900	53,500	55,100	3.0%	3.0%	3.0%	3.0%
Misc.	Depreciation & Other Expenses		-	-	-	-	-	3.0%	3.0%	3.0%	3.0%
Subtotal	Supplies & Services	\$ 2,536,052	\$ 2,701,686	\$ 2,782,800	\$ 2,866,300	\$ 2,952,200	\$ 3,040,700				
CAPITAL OUTLAY											
43825	Machinery/Equipment	\$	30,500	\$ 71,400	\$ 32,400	\$ 33,400	\$ 34,400	3.0%	3.0%	3.0%	3.0%
43835	Furniture/Office Equipment		7,425	7,600	7,800	8,000	8,200	3.0%	3.0%	3.0%	3.0%
43840	Computer Equipment		6,865	7,100	7,300	7,500	7,700	3.0%	3.0%	3.0%	3.0%
43845	Computer Software		4,935	5,100	5,300	5,500	5,700	3.0%	3.0%	3.0%	3.0%
Subtotal	Capital Outlay	\$ 45,567	\$ 49,725	\$ 91,200	\$ 52,800	\$ 54,400	\$ 56,000				
DEBT SERVICE (After FY01-02, based on Schedules and % Allocation below)											
44990	Principal	\$	655,000	\$ 1,350,038	\$ 1,311,563	\$ 1,270,450	\$ 1,227,038	0.0%	0.0%	0.0%	0.0%
44991	Interest	\$	1,403,954	\$ 600,000	\$ 640,000	\$ 680,000	\$ 725,000	0.0%	0.0%	0.0%	0.0%
44994	Lease Payments		-	-	-	-	-	0.0%	0.0%	0.0%	0.0%
44995	Service Fees		10,720	10,720	10,720	10,720	10,720	0.0%	0.0%	0.0%	0.0%
	Savings From Re-Funding		-	(120,070)	(119,737)	(118,024)	(119,412)				
Subtotal	Debt Service	\$ 1,637,946	\$ 2,069,674	\$ 1,840,688	\$ 1,842,546	\$ 1,843,146	\$ 1,843,346				
1992 Bond Issue (From Jack Dilles, 9/21/92)											
	Principal	FY01-02	FY02-03	FY03-04	FY04-05	FY05-06	FY06-07				
	Interest		\$1,385,598	\$1,350,038	\$1,311,563	\$1,270,450	\$1,227,038				
			\$635,000	\$600,000	\$640,000	\$680,000	\$725,000				

Table BP-S1 (Cont.)

Budget Projections - Sewer Operations (O&M Expense Detail)*City of Morgan Hill*

INTERNAL SERVICES

45000	General Fund Admin.	\$	211,522	\$	217,900	\$	224,400	\$	231,100	\$	238,000	3.0%	3.0%	3.0%	3.0%
45001	Personnel Services		-		-		-		-		-	3.0%	3.0%	3.0%	3.0%
45002	Finance Services		-		-		-		-		-	3.0%	3.0%	3.0%	3.0%
45003	General Liability Insurance		26,448		27,200		28,000		28,800		29,700	3.0%	3.0%	3.0%	3.0%
45004	Building Maintenance		28,972		29,800		30,700		31,600		32,500	3.0%	3.0%	3.0%	3.0%
45007	Legal Services		-		-		-		-		-	3.0%	3.0%	3.0%	3.0%
45009	Information Systems		8,310		8,600		8,900		9,200		9,500	3.0%	3.0%	3.0%	3.0%
Subtotal Internal Services		\$	231,586	\$	275,252	\$	283,500	\$	292,000	\$	300,700				

TRANSFERS OUT

49201	Transfer-Street	\$	160,000	\$	200,000	\$	206,000	\$	212,200	\$	218,600	\$	225,200	3.0%	3.0%	3.0%	3.0%
49210	Transfer-General Fund		15,000		17,500		18,000		18,500		19,100		19,700	3.0%	3.0%	3.0%	3.0%
49250	Transfer-Equip Replace		-		-		-		-		-		-				
49262	Transfer-Sewer Replace		500,000		500,000		515,000		530,500		546,400		562,800	3.0%	3.0%	3.0%	3.0%
49271	Transfer-Water Operations		175,543		173,877		179,100		184,500		190,000		195,700	3.0%	3.0%	3.0%	3.0%
	Misc. Transfer-Misc Transfers		-		-		-		-		-		-	3.0%	3.0%	3.0%	3.0%
Subtotal Transfers		\$	850,543	\$	891,377	\$	918,100	\$	945,700	\$	974,100	\$	1,003,400				

Total \$ 6,096,322 \$ 6,875,234 \$ 6,887,088 \$ 6,999,246 \$ 7,154,446 \$ 7,314,046

Other (Non-Rate) Revenues

Interest Income	\$	301,002	\$	295,119	\$	304,000	\$	313,000	\$	322,000	\$	332,000	#	3.0%	3.0%	3.0%	3.0%
Administration Fee		-		-		-		-		-		-	-	3.0%	3.0%	3.0%	3.0%
J.P. Pretreatment		-		-		-		-		-		-	-	3.0%	3.0%	3.0%	3.0%
Front Footage/Offsite		20,000		20,000		21,000		22,000		23,000		24,000	#	3.0%	3.0%	3.0%	3.0%
Other Revenue		-		-		-		-		-		-	-	3.0%	3.0%	3.0%	3.0%
Connection Fees		5,000		5,000		5,000		5,000		5,000		5,000	#	3.0%	3.0%	3.0%	3.0%
Lift Station Charge		76,400		76,400		79,000		81,000		83,000		85,000	#	3.0%	3.0%	3.0%	3.0%
Reimb. of Expenses		-		-		-		-		-		-	-	3.0%	3.0%	3.0%	3.0%
Misc. Reimbursements		-		-		-		-		-		-	-	3.0%	3.0%	3.0%	3.0%
Utility Bill Delinq. Charge		15,000		12,500		13,000		13,000		13,000		13,000	#	3.0%	3.0%	3.0%	3.0%
Transfer In - Water Rate Stabil		-		-		-		-		-		-	-	3.0%	3.0%	3.0%	3.0%
Subtotal-Other Revenues		\$	417,402	\$	409,019	\$	422,000	\$	434,000	\$	446,000	\$	459,000	#			
Sewer Service Charges				\$	5,389,650												

Table FP-S4

Summary of 5-Year CIP Sewer Projects*City of Morgan Hill*

Project Name		CIP No.	Sewer Financial Plan - Projected CIP Costs				
			FY'02-03	FY'03-04	FY'04-05	FY'05-06	FY'06-07
Trunk Lines		308094	\$150,000	\$400,000	\$8,000,000	\$0	\$0
Sanitary Sewer Rehabilitation		302093	350,000	350,000	350,000	350,000	350,000
Sewer Plant Imp. Project		303093	3,853,000	2,622,000	485,000	1,518,000	8,386,000
Lift Station Improvements		304093	630,000	630,000	0	0	0
Lift Station Telemetry		305093	400,000	0	0	0	0
Upgrade Existing Pipelines		301093	440,000	350,000	350,000	350,000	350,000
Total Projects Costs			\$5,823,000	\$4,352,000	\$9,185,000	\$2,218,000	\$9,086,000
Funding Sources							
317 - Redevelopment Agency			\$0	\$0	\$0	\$0	\$0
641 - Sewer Capital Expansion Fund			\$4,003,000	\$3,022,000	\$485,000	\$1,518,000	\$8,386,000
Sewer Revenue Bonds			\$0	\$0	\$8,000,000	\$0	\$0
643 - Sewer Replacement Fund			\$1,820,000	\$1,330,000	\$700,000	\$700,000	\$700,000
Total Project Funding			\$5,823,000	\$4,352,000	\$9,185,000	\$2,218,000	\$9,086,000
Net Cost/(Surplus)			\$0	\$0	\$0	\$0	\$0



CITY COUNCIL STAFF REPORT

MEETING DATE: January 22, 2003

Agenda Item # 10

Prepared/Approved
By:

Council Services &
Records Manager

Submitted By:

CONSIDER REQUEST FROM MORGAN HILL COMMUNITY HEALTH FOUNDATION (MHCHF) FOR PARTIAL DISBURSEMENT OF MATCHING FUNDS

**RECOMMENDED ACTION: CONSIDER REQUEST BY
MHCHF; AND APPROPRIATE FUNDING, AS DEEMED
APPROPRIATE.**

EXECUTIVE SUMMARY:

Attached, please find a letter dated January 18, 2003 from William H. Brown, President of the MHCHF, informing the City Council that they have been successful in raising \$36,200 in donations. As such, MHCHF is requesting that the City Council authorize the City Manager to disburse \$36,200 in matching funds to MHCHF.

The City Council set aside \$250,000 in Fiscal Year 2001-02 to assist in the restoration of medical services in the community. In May 2002, the Council authorized a \$50,000 matching grant as well as \$80,000 to be used for physician recruitment to MHCHF. The balance of \$120,000 in unexpended funds was carried over into Fiscal Year 2002-03. Mr. Brown's request for matching funds has been placed on the agenda for Council consideration. Mr. Brown will be in attendance at the January 22, 2003 meeting to address the Council. Mr. Brown's letter is attached for Council reference.

FISCAL IMPACT: There is a remaining balance of \$120,000 in the medical services account, should the Council wish to provide the \$36,200 in matching funds being requested by MHCHF.



REDEVELOPMENT AGENCY

MEETING DATE: January 22, 2003

SCHEMATIC DESIGN OF AQUATICS COMPLEX AND FINANCIAL ANALYSIS REPORT

RECOMMENDED ACTION(S):

1. Conditional approval of the Schematic Design pending Agency and staff review with recommended revisions.
2. Authorize staff to proceed with the Design Development / Construction Document Phase of the Project.

EXECUTIVE SUMMARY:

At its meeting on December 18, 2002 the Agency reviewed the scope of the schematic design site plan and budget for the Aquatics Complex. The Agency approved a budget increase of \$ 2.7m in order to build the complex as originally envisioned. (Attachment A: drawings).

The construction cost as presented to the Agency in December was estimated at \$8.5m including off-site work and contingencies. Included with these final schematic design documents is an updated construction cost estimate that indicates a cost of \$ 8,497,000.00. (See Attachment B. page 6). Costs associated with LEEDS certification are included within the construction cost estimate. The approximate cost of the LEEDS elements is \$400,000.00. In order to maintain the accelerated schedule, the design phase has been compressed. It was decided to incorporate any staff and Agency revisions into the design at the beginning of the design development /construction documents phase.

In accordance with the Council's policy, we will not go out to bid on the project until a "business plan" has been prepared and approved, showing the annual net operating cost. Sports Management Group has begun initial work based on the operating policies and pricing structures at other municipal swim complexes. However, the final plan will be a function of: a) the physical amenities provided, b) the number of potential users of the facility, c) the pricing structure, and d) the number of days "open for business." The Council Aquatics subcommittee (Kennedy and Carr) will be reviewing the draft operating plan and will be providing its recommendation in addition to the staff recommendation within the next two weeks or so.

The attached memorandum provides additional detail on the schedule, the business plan, and recommended design changes.

FISCAL IMPACT:

The proposed changes on the attached memo will generate increase revenue potential and are minor costs at this stage of the design process. The changes have no fiscal impact on the overall construction cost but will increase cost recovery potential.

Agenda Item # 11

Prepared By:

**Senior Project
Manager - Community
Buildings**

Approved By:

**Recreation &
Community Services
Manager
Submitted By:**

City Manager

TO: ED TEWES, CITY MANAGER

FROM: JULIE SPIER, RECREATION AND COMMUNITY SERVICES MANAGER
JIM DUMAS, SENIOR PROJECT MANAGER-COMMUNITY PROJECTS

DATE: JANUARY 16, 2003

PROJECT SCHEDULE

Council Aquatics Subcommittee financial analysis review:	February 5
Approval of Business Plan	February 19
Authorization to bid pool package:	March 19
Pool Package Out to Bid:	March 27
Pool Package Bid Due:	April 16
Pool Bid Approval:	May 7
Authorization to bid general contractor:	June 4
General Contractor Out to Bid:	June 9
General Contractor Bid Due:	July 1
Council Bid Approval:	July 17
Construction:	July 17- May 7, 2004
Soft Opening:	May 10-26
Grand Opening:	May 28, 04

BUSINESS PLAN

One of the concepts to be explored is the nature of the operator of the facility. While it is possible for the City staff to operate the facility as a municipal public facility, we hope to be able to explore partnerships with private operators, either for profit or not for profit.

Staff have requested and received expressions of interest from the Morgan Hill Aquatics Foundation, and two private entities. Members of the Foundation are currently serving on the steering committee to oversee the architectural designs. We will be discussing with the Council's Aquatics Sub-committee (Mayor Kennedy and Council member Carr) how best to proceed with evaluating the operations options and establishing the overall business plan.

DESIGN REVISIONS

Staff and the Aquatic's Steering Committee are recommending that the following amenities be revised and included in the design:

- A. Designing the recreation pool to accommodate a future second slide and provide as a bid alternate.
- B. Enlarge the concession areas with provisions for a grill and frier.
- C. Consider providing as a bid alternate a six lane instructional pool instead of four lanes. (This is in order to improve the overall cost recovery by an average of \$88,000 annually, not including increased concession sales)
- D. Relocate the windscreen and team lawn to allow more deck area around the recreation pools.
- E. Remove the wood siding from the buildings and return to masonry exterior with detail in the block.
- F. Public Art: revise the west elevation of the pool building to become more interesting.

Incorporate a facility sign with mural art work. Investigate adding a tile mural to the recreation pool entry area.

Staff have made these recommendations based on not impacting the schedule, or the overall construction budget.



CITY COUNCIL STAFF REPORT

MEETING DATE: January 22, 2003

Agenda Item # 12

Prepared By:

Asst. to the City Mgr.

Submitted By:

City Manager

CITY SUPPORT FOR CREATION OF 2-1-1 INFORMATION AND REFERRAL PHONE NUMBER

RECOMMENDED ACTION:

Hear presentation by Silicon Valley United Way representative, and adopt Resolution of Support if desired.

EXECUTIVE SUMMARY:

The United Way Silicon Valley has requested the opportunity to make a presentation to the Council regarding the development of a 2-1-1 phone number in Santa Clara County. The 2-1-1 number has been designated by the Federal Communication Commission to provide information and referral for health and human services. It is now in use in 35 local systems in the U.S., including some statewide deployments.

The 2-1-1 Steering Committee is seeking the support of city governments in the County for the concept of developing the 2-1-1 system. This support includes participation in the design and operations process, and financial support for the system could be requested in the future. The Steering Committee is preparing for the 2-1-1 system to be operational in January 2004.

The attached resolution states the City Council's support of this program in concept, and commits the City to offering advice and cooperation to the 2-1-1 Steering Committee.

FISCAL IMPACT:

There is no fiscal impact at this time. The funding mechanism for the 2-1-1 system has not been established, however, and City funding may be requested at a future date.

RESOLUTION NO. _____

**A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF
MORGAN HILL IN SUPPORT OF CREATING A 2-1-1
INFORMATION AND REFERRAL PHONE NUMBER TO
SERVE SANTA CLARA COUNTY RESIDENTS AND VISITORS.**

WHEREAS the Federal Communication Commission has designated 2-1-1 as the national phone number for citizens wanting non-emergency information and referral for social and welfare services, health and mental health services, housing and shelter needs 24 hours a day and 7 days a week, and

WHEREAS 2-1-1 serves as a critical link between the public and emergency food, shelter and other critical needs following major disasters, such as earthquakes, floods, fire, terrorism or war, and

WHEREAS 2-1-1 provides a new vehicle for civic engagement, connecting people with agencies to which they can donate their time, money or goods, and

WHEREAS 37 centers in 18 U.S. states are already using 2-1-1 successfully and meeting citizens' information and referral needs and 2-1-1 is projected to reach 50% of the population by year end 2005, and

WHEREAS the California Association of Information and Referral Systems (CAIRS) has petitioned the California Public Utilities Commission (CPUC) to authorize 2-1-1 statewide and to define rules governing a system that is decentralized by county, and

WHEREAS the citizens of Santa Clara County have organized a year-long effort under the United Way Silicon Valley's leadership to plan and implement this program in Santa Clara County by January 1, 2004, and

WHEREAS the Silicon Valley 2-1-1 Project is seeking the advice, cooperation and support of Santa Clara County and all 15 cities in the county, to bring this 2-1-1 project to all county residents,

NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF MORGAN HILL AS FOLLOWS: That the City of Morgan Hill agrees to support this program in concept, offering advice and cooperation to the 2-1-1 Steering Committee and the United Way Silicon Valley in devising a plan to implement 2-1-1 locally by January 2004.

PASSED AND ADOPTED by the City Council of Morgan Hill at a Special Meeting held on the 22nd Day of January, 2003, by the following vote.

AYES: **COUNCIL MEMBERS:**
NOES: **COUNCIL MEMBERS:**
ABSTAIN: **COUNCIL MEMBERS:**
ABSENT: **COUNCIL MEMBERS:**

🦉 CERTIFICATION 🦉

I, IRMA TORREZ, CITY CLERK OF THE CITY OF MORGAN HILL, CALIFORNIA, do hereby certify that the foregoing is a true and correct copy of Resolution No. , adopted by the City Council at a Special Meeting on January 22, 2003.

WITNESS MY HAND AND THE SEAL OF THE CITY OF MORGAN HILL.

DATE: _____

IRMA TORREZ, City Clerk